Investment Memorandum

50 Florida Avenue, NE, Washington, DC 20002

Practicum

Masters of Science in Real Estate

Johns Hopkins University

Prepared by:

Christopher Peter Wells

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Advisor:

David Sislen

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Executive Summary:

Objective:

The purpose of this investment memorandum is to detail a mixed-use commercial investment opportunity to prospective equity partners for investment in a limited liability company to be created for the purpose of an acquisition and future redevelopment of a 40,659 (.93 acres) square foot land parcel located at 50 Florida Avenue (also known as 44 Porter Street) NE, Washington, D.C. Existing improvements include a 60,000 square foot, three story, former ice distribution warehouse built in 1930. The asset is 30% leased to a delicatessen and temporary dry storage, both month to month leases.

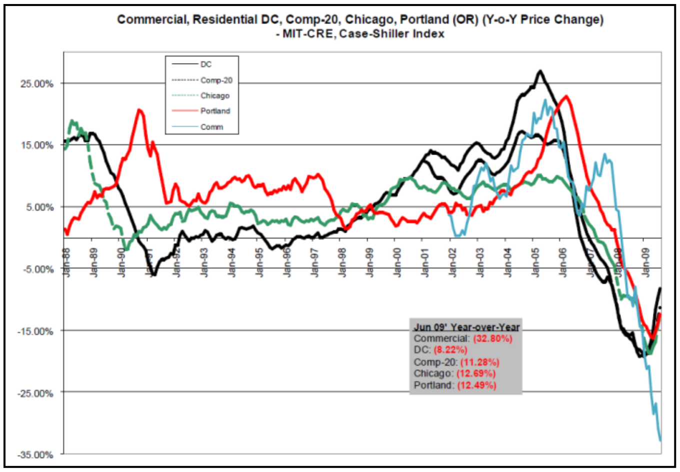
Property	
Tax Parcel:	3516-0819 (Washington, DC)
Address:	44 Porter Street, NE, Washington, DC 20002
Mailing Address:	50 Florida Avenue, NE, Washington, DC 20002
Ward:	5
Land Area:	40,659 SF
Tax Year 2010 Preliminary Assessment Roll:	
Land:	$8,131,800
Improvements:	$883,800
Total:	$9,015,600

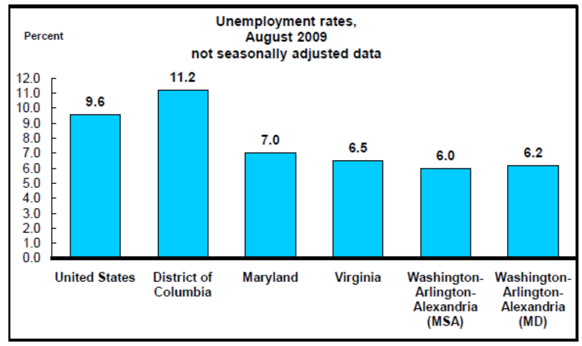
Zoning: CM2 - *Permits development of medium bulk commercial and light manufacturing uses to a maximum 4.0 FAR and a maximum height of 60 feet with standards of external effects and new residential prohibited. Note: Approved PUD = 90 feet height.*

The property is a three story warehouse. Its construction is cast in place concrete slabs on a composite steel construction. The exterior walls are of concrete. One Otis elevator serves the building.

Christopher Wells has created Wells Capital Company for the purpose of sourcing commercial and multifamily real estate investment opportunities in the Metropolitan Washington, DC market for acquisitions and development/redevelopment opportunities predicated on appropriate market and financing factors.

The objective of this investment is to maximize equity partner returns with minimal risk. Currently, options for investment of most asset classes are risky and provide historically low yields. The U.S. equity and fixed income markets are offering minimal returns today and there is much uncertainty as to how these markets will perform in the next few years. Real estate is the best hedge against inflation. Washington's DC's commercial real estate market is experiencing high historical vacancies but the region is experiencing lower unemployment and lesser declines in year over year housing prices than the rest of the nation per the Case-Shiller Residential Price Index from June 2009 and The U.S. Bureau of Labor Statistics data from August 2009. See below for detail:





What does this mean for investors? Commercial real estate is a risky investment today but with limited options, Washington, DC is a strong market in which to invest. The lower DC, MSA unemployment rate and higher probability of residential appreciation point to future jobs, disposable income and as such, demand for office space, housing, retail and amenities when the economic fundamentals of the country return. If 50 Florida Avenue can be purchased at market or below market price, equity in this investment has the potential of reaching attractive returns when the market rebounds over the next 3-5 years.

It should be further highlighted that the subject site does carry numerous risks due to its location and the oversupply of office, hotel and multifamily products in the market, thus limiting the possibilities for these uses. Further, the DC market is experiencing a recession due to increased unemployment and a slowdown in the capital markets (lending) thus freezing the positive potential for construction and permanent financing.

Zoning has been thoroughly investigated as has the desired uses for the site through discussions with the District of Columbia government. Market product over supply and zoning limitations has restricted the site's uses to hotel, artist housing, retail, light industrial and commercial. Research has been conducted on hotel, office condominium and traditional office uses but have been rejected for the near future due to oversupply in the immediate, neighboring "NoMa" and New York Avenue markets.

The investment must be based on a two-phase plan due to the poor economic conditions of today. It is required that a plan be put in place to acquire the asset so as to gain control of it and then hold for three years to wait out the recession. Phase I will be a buy and hold strategy which will utilize either a mix: retail and art-studio housing scenario or that of a warehouse. The rental income from these uses will serve as income for debt service payments on the existing property until stronger economic fundamentals return. Phase II will commence at year four, 2013 (after a 12 month construction period) and will include a complete redevelopment of the site into a mixed-use retail/student housing scenario or a retail/office development feeding off traffic volume from Florida and New York Avenues plus serving as a solution for office lessees who wish to be in NoMa but do not wish to be burdened by future high rents.

Investor Returns:

The named, called "50 Florida Avenue," has been offered for sale at $8,000,000 but the LLC will offer a lower price using market data and historical pricing trends that point to a price point that is more appropriate for the market*.* The offer will be a maximum of $5,000,000. Seller financing of $4,000,000 at 7%/year, interest only with the balance to be provided in equity. The limited liability partnership will be created to raise the balance of the purchase price. This is to total $1,000,000 plus funds for closing costs and a potential line of credit or construction loan depending on the Phase I use. Ownership interests are to be offered in $100,000 increments.

- IRR Summary

Phase I: Artist studio housing has been rejected as a use to due to a negative IRR and NPV.

Due to the depressed nature of the national economy and the slowdown in the local economy, Wells Capital Company has decided it prudent to move forward with using the existing structure as warehouse space. Management/ownership will lease through a national broker, 90% (10% leased to existing delicatessen) to GSA tenants, in addition to a potential catering business seeking space within the District. O'Neill Realty Investors has brought management this opportunity. Rents must be at a minimum of $9.00/SF NNN. It should be noted that the space must be 100% pre-leased prior to acquisition close; otherwise, the investment will be abandoned. If pre-leasing is successful, Wells Capital Company will hold the asset for three years, delivering average, annual after-debt-service returns of 5% to the Phase I investor group. If leasing remains at 100% and it does not appear the economy has improved, management may sell the asset at the end of year three realizing a 13% IRR on the warehouse use.

Phase II: The national and economic environment will be carefully monitored over the three year hold period. If conditions worsen, management will conduct best efforts to maintain maximum leasing activity at 50 Florida Avenue and review the performance of the asset to determine a sale or continued hold strategy. It is anticipated; however, that the Metro-Washington market will maintain lower vacancies than the rest of the nation as well as lower unemployment, helping the region and its investments to better withstand economic turbulence.

If the economy has improved and construction lending is active by year three (2012), management will begin negotiations with local and national lenders to attain a construction loan for either $34MM (student housing) or $38MM (office/office condominium). This loan will repay the Phase I investor group if they so choose or they may chose to reinvest equity in Phase II of the investment. It is anticipated that construction lenders will underwrite the initial land and improvements cost of $5.2MM as "land cost."

Depending on the demand of institutional equity and private investors, Phase II will either consist of the construction of a mixed-use retail/student housing PUD (map amendment needed for this residential use) or that of a retail/office-office condominium PUD.

IRR Yields derived from the "Financial" section of the memorandum are based on a 15% hurdle rate minimum; however, institutional investors will require IRR returns from 25%-30%, thus the Phase II portion of the investment must reach a minimum of ***25%-30%*** if management is to attract these larger equity participants:

1. Student housing scenario yields a ***13% IRR***; however, demand is low for this use today. Use is unlikely.

2. Class B office use yields a ***4% IRR*** with average rents at $29.11/SF NNN. Average rents must reach $39.86 NNN to attain a 15% IRR. Use is unlikely.

3. Office condominiums yield a ***31% IRR***. This is a healthy return for institutional investors. If the demand exists for this product in three years, Wells Capital Company will move forward with this option.

- Time Line

Management will evaluate the local and national economy during the three year hold period. If demand exists for the aforementioned three uses, management will choose the most appropriate that can be supported by market, economic and financial conditions moving forward. A 12 month design and pre-construction period will take place from January, 2012 to December 2012. Ground breaking will begin in January 2013 and construction will commence in December 2013. An estimated 60%-70% of pre-leasing and sales will need to take place for the office scenario. This will take place in 2012-2013. If an office condominium scenario is chosen, sales will take place from October 2013 through March 2014.

Wells Capital Company wishes to move forward with the investment opportunity located at 50 Florida Avenue.

Phase I: Equity required (warehouse use recommended): $1.04MM

Phase II: Equity required (office condo use recommended): $17.6MM

Field Investigation Analysis/NoMa Market:

NoMa: Development Status

	Completed (2006 - 2009)	Under Construction	TOTAL
Office	2,135,000 sf	1,400,000 sf	3,535,000 sf
Retail	70,000 sf	108,000 sf	178,000 sf
Hotel	218 rooms	204 rooms	422 rooms
Residential	NA	752 units	752 units
TOTAL	2,355,000 sf	2,394,000 sf	4,749,000 sf

* Based on NoMa BID data, Summer 2009

The site has been chosen due to its close proximity to the central NoMa business district which has experienced almost 2.4MM square feet of office and retail space development in the past three years. 2.4MM SF is now under construction, bringing the total square footage to 4.7MM by the end of 2010. It is anticipated that close proximity to this new business district and Metro will boost demand for uses at 50 Florida Avenue. Today's realities must be highlighted however. A majority of the delivered, *speculative* office buildings are vacant. Detail of the commercial NoMa market is as follows:

2007-2009: DELIVERED OFFICE + HIGH VACANCY:

Properties of note are as follows. They are completed or have broken ground in anticipation of tenants prior to the 2008-2009 recession.

- 2008 - Brookfield Property's, 77 K Street (309,187 SF office and 16,860 SF retail) is 100% vacant.

- Q2, 2010 - Phase I of Trammell Crow Company's, 389,000 SF, Sentential Square (Anticipated completion of Phase II-IV to be 2012 (1.2MM SF office and 70,000 SF retail total) is vacant with no pre-leasing.

- 2007 - Polinger/Van Ness Property Group's Capitol Plaza - Phase I at 1200 First Street (291,838 SF) is 100% leased to the District of Columbia Government, Internal Revenue Service.

- 2009 - Tishman Spyer's 1100 First Street (350,000 SF office) has leased one floor of 30,000 SF to GSA tenant, Federal Energy Regulatory Commission (FERC). The Urban Institute, who had an interest in office condo opportunities at the site, recently pulled out from buying several floors due to their inability to break their lease at 2100 M Street.

OCCUPIED OFFICE: 321,838 occupied SF / 1,340,025 SF Total = *24%*

EXISTING OCCUPANCY + TO BE OCCUPIED:

The seven properties of note that are occupied as of 2009 or are on schedule to be so in 2010 are government, office/association, residential and hotel related. They are as follows:

- 2007 - The General Services Administration, U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives Headquarters was completed in 2007 and includes 442,000 SF of office and 8,000 SF of retail.

- 2010/2012 - StonebridgeCarras' Constitution Square will be completed in years 2010-2012 and will include anchor tenant, Department of Justice (1.4MM SF of office, 86,500 SF of retail to include, Harris Teeter, plus 980 apartment units and a 204 room Hilton Garden Inn.)

- 2006 - Bristol Group's One NoMa Station is 95% (403,859 SF) occupied by the Veterans Administration, Department of Homeland Security and the U.S. Equal Employment Opportunity Commission.

- 2009 - The Finvarb Group has completed a 218 room Marriott Courtyard with 10,000 SF of retail.

- 2010 - Cohen Companies is finishing their Phase I of Union Place which is to include 240 apartments, 30 of which are to be affordable housing for artists.

- 2010 - Greenbaum and Rose has completed the Capital Cab Site which will deliver 100 units of housing.

- 2010 - Paradigm Development Company is to deliver 95 units of intern/university student apartment housing.

- 2010 - Finally, J Street Development's 90,000 SF office condominium project at 111 K Street is scheduled to be completed in 2010. The project is 60% sold.

<u>OCCUPIED</u> OFFICE: 2,225,666 SF occupied / 2,245,859 Total = *99% (due to GSA tenants)*

While NoMa has experienced a slowdown in product delivery due to a drop in office, retail and residential demand, 19MM SF of office, retail and residential is to be delivered by 2012+ based on favorable market and financing conditions. The purpose of the above calculations is to demonstrate that the newly delivered product that does not consist of GSA tenants is suffering from minimal demand today. When the market returns, there will be a high supply of office product not yet leased and thus demand for this currently vacant Class A or B office product will increase. As such, Phase II of "50 Florida Avenue" will be able to take advantage of the potential new activity in NoMa and an increase in office tenants will drive demand for products sold at the anchor retail tenant on the ground floor and potentially drive demand for either office condominiums/office tenants or student housing on the remaining floors in 2014 and beyond.

Project Delivery (Year)	Office (SF)	Retail (SF)	Residential (units)	Hotel (rooms)	TOTAL (SF)
2006-2008	1,796,884	47,843			1,844,727
2009	423,500	26,500		218	600,000
2010	1,513,000	111,200	752	204	2,504,100
2011	1,815,000	189,500	2,421	405	4,667,200
2012+	5,855,500	581,300	5,072	300	11,675,000
TOTAL	**11,492,384**	**957,843**	**8,245**	**1,127**	**21,381,027**

Updated Dec. 08

- Zoning/District of Columbia Government Approvals

Current zoning for the property is CM2 which allows for a 4.0 FAR and 60 foot height limitation. It should be noted that with a PUD (Planned Unit Development) the height may be maximized to 90 feet or 6 stories (.75' floor plates and 2.0' area for electrical and plumbing). Currently, the structure is 62,000 square feet with 20,000 square feet floor plates. At the end of the three year hold period the existing building will be demolished to make way for a new asset where the floor plate area will be maximized to 27,000 square feet to take advantage of the by right floor area ratio of 4.0, thus maximizing the density to 162,000 square feet.

- Zoning By Right:

Zoning detail for (C-M) Districts or Commercial-Light Manufacturing was thoroughly reviewed. Pursuant to the zoning regulation, these districts "are intended to provide sites for heavy commercial and light manufacturing activities employing large numbers of people and requiring some heavy machinery under controls that minimize any adverse effect on other nearby, more restrictive districts." No new dwelling developments are permitted in these areas, thus new multifamily is not an option; however, "an apartment integrated with and accessory to an artist studio shall be permitted as a matter of right." Artist studio rentals have been considered an option for the existing "as is" structure.

Other matter of right uses include, "a hotel or inn." Hotel competition is strong. A 218 room Marriott Courtyard has been constructed a block away next to the Red Line Metro station. They are currently experiencing 70% nightly occupancy rates. A 204 room, Hilton Garden Inn is to be completed two blocks south of the subject parcel in 2010. Finally, numerous limited service hotels are scattered in a 1 mile radius of the subject, north on New York Avenue. A hotel use for the subject site is not an option due to a current healthy supply.

A public utility pumping station, repair garage, fast food/carry out restaurant are also permitted by right uses. It has been indicated by the District Government that these uses are not wanted by the community however.

- Special Exceptions

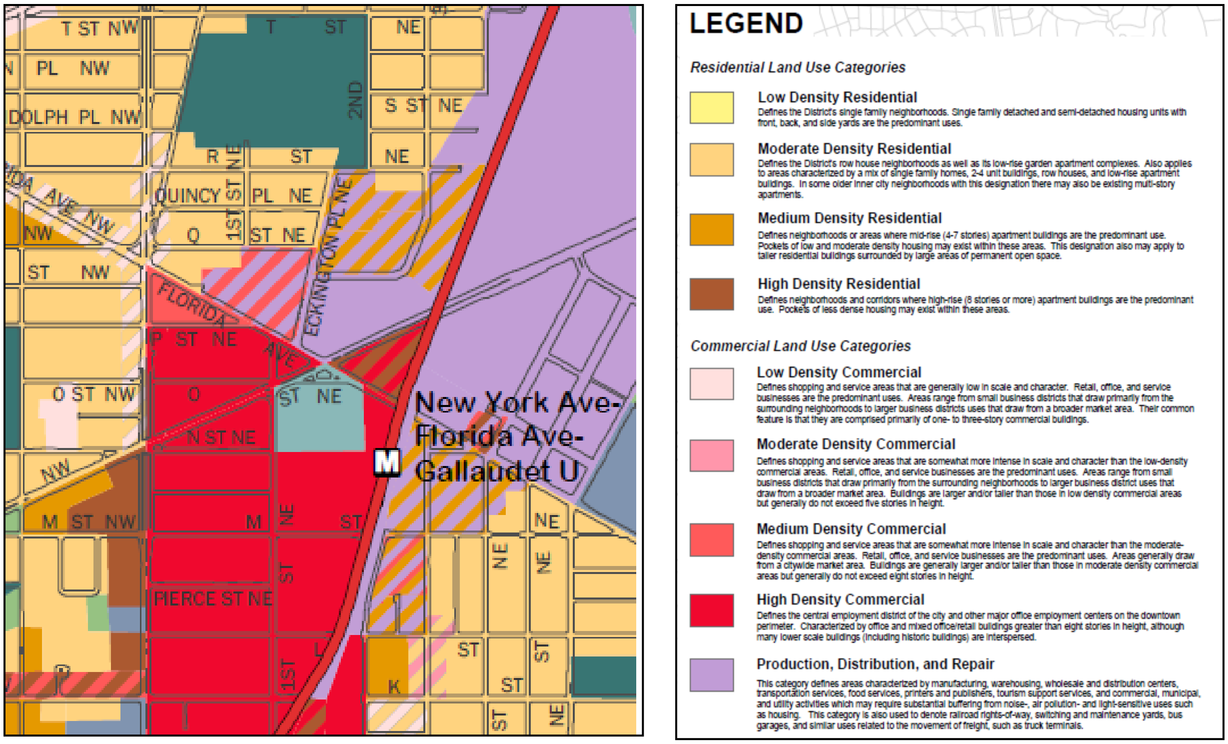
The following special exceptions exist for those parcels located in a C-M zone. This is defined as including intermediate materials recycling facility, a solid waste handling facility, massage parlor and an electronic equipment facility. The District Government has indicated that these uses are not wanted by the community as well.

- Ward 5 Community

Personnel from the DC Office of the Deputy Major for Planning and Economic Development, Office of Planning and Office of Zoning were interviewed to best understand the desired use for the parcel.

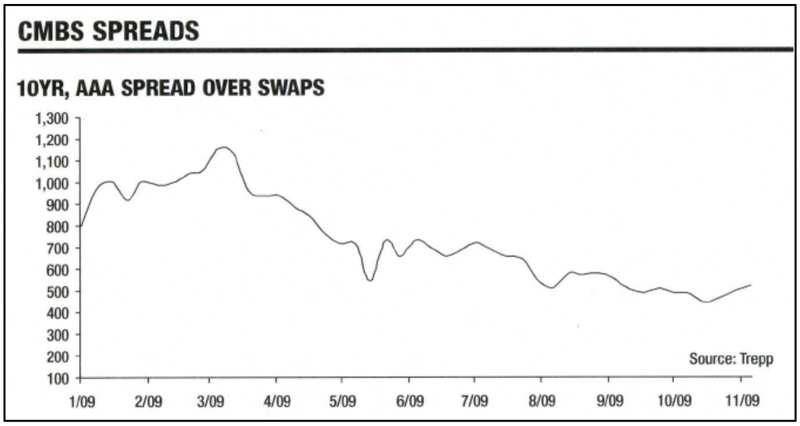
In reviewing the District's Comprehensive Plan, it is apparent that the site located below surrounded by the boundaries of Florida Avenue, Eckington Place and Q Street is zoned for mixed use "medium density commercial" and "production, distribution, repair." The comprehensive plan describing "Central Washington Retail" details a need for land uses to "serve not only the regional market, but also the local neighborhood market created by residential development within the area….this should include basic consumer goods like drug stores, hardware stores and grocery stores…"

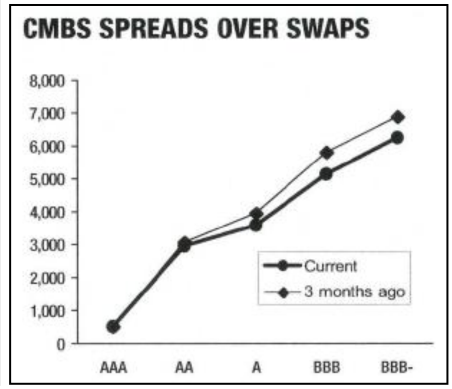
Further, "Small Area Plans" are used by the city to further detail desired land uses. The "North NoMa Neighborhood - Small Area Plan" has indicated a vision of a neighborhood that serves "both residents and commercial tenants." Retail goals include, "limited neighborhood-serving retail, smaller scale uses such as restaurants, coffee shops and cleaners. It has been detailed in the "North NoMa Small Area Plan" and through verbal affirmation from city officials that retail uses such as a grocery or pharmacy store, serving the Eckington, NoMa, Truxton Circle and Le Droit Park neighborhoods in addition to artist studio or office would be accepted moving forward especially as NoMa transitions to a work/live neighborhood. As such, Phase II of the 50 Florida Avenue development will include a retail component such as a CVS Pharmacy or a Yes! Organic Market located on the ground floor.



II. Investment Alternatives

Institutional equity investors have been investigated and this may be of interest in three years as they seek to place capital in real estate projects at a minimum of $5MM-$20MM. $17MM will be required for the office condo scenario. Other larger, equity investors may not be as receptive. For example, CIM Group, requires a minimum of $20MM and wish to invest in projects in markets that can feed off one another in clusters, meaning investments are made in multiple asset classes in a particular market that generate synergies with one another. In this situation, an office project can drive demand for a multifamily project which in turn can push demand for a retail project. Returns for a development project range from 15%-20% in strong economic times and 25%-30% in slower, more risky economic times. Stabilized projects require a 9%-10% return unleveraged at a minimum 75% lease rate. Other potential equity sources include the New Boston Fund, Westbrook Partners, JP Morgan and Goldman Sachs. Their minimums are $5MM in a decent economic market. It should be noted that today, these equity sources can buy CMBS bond notes at higher returns but with less risk. For example, one can purchase a AAA bond = 500 bps + swap rate or a AA bond = 3,000 bps + swap rate. 10 year swaps = 3.60% for October 2009. Commercial Mortgage Alert's November 13, 2009 issue has detailed CMBS spreads as follows:





50 Florida Avenue is a relatively small mixed-use project on the outer rim of the main NoMa market with little room for immediate expansion due to XM Satellite's utility building to the east and the Eckington residential neighborhood to its west. For this reason, larger institutional investors have not expressed great interest in the project. It should be noted that these institutional sources are now buying bond notes at healthy returns and lower risk levels. But the investment landscape may be different in three years and 50 Florida Avenue, if still able to attain a healthy IRR in 2014, may be a desired investment.

This investment will require private equity partners. At a minimum 10-20 investors will be required and they wish to see returns of 8%-15% over the life of the investment. Wells Capital Company has accumulated these resources from the completion of debt transactions over the past seven years while a commercial mortgage and sales broker at Washington, DC's Randall Hagner Commercial Real Estate and J Street Development Companies. These individuals have expressed interest in placing capital in a higher risk investment with the potential reward of the aforementioned returns upon the return of stronger national and local economic fundamentals.

Risk Types:

The objective of investors is wealth maximization and as such there are numerous alternatives. The prudent investor will investigate types of risk. They can be classified as follows:

- Purchasing Power Risk

Inflation must be considered as a serious drain on buying power for the investor; that is, dollars are worth more today than tomorrow. This risk reflects the fact that inflation will cause the investor to be paid back with less valuable dollars and so the cost of goods and services tomorrow will cost more tomorrow. According to the U.S. Bureau of Labor Statistics' the CPI percent change from October 2008 to October 2009 was -0.2%. While inflation is negative today due to soft economic activity and unemployment, there is an argument that the excessive Federal spending (added money supply) may spark inflation and thus the deterioration of U.S. dollar value. To defend against inflation and this draining of dollar value, real estate may be a good hedge. If a landlord can attain a signed lease for a tenant for 10-15 years with annual escalations, these rent increases will; in essence, protect that investment from inflation or at least keep up with it. Of course operating costs will escalate as well but the incremental increase in rents minus these operating costs might still hedge against this inflation risk and thus protect an investor's dollars. As highlighted below from Modern Real Estate, real estate is a strong hedge compared to other investments during a recession and periods of high inflation.

	Average Annual Return on Investment*			
Investment	Recession	Boom	High Inflation	Low Inflation
Bonds (long-term government)	17%	4%	–1%	8%
Commodity index	1	–6	15	–5
Diamonds (1-carat investment grade)	–4	8	79	15
Gold† (bullion)	–8	–9	105	19
Private home	4	6	6	5
Real estate‡ (commercial)	9	13	18	6
Silver (bullion)	3	–6	94	4
Stocks (blue chip)	14	7	–3	21
Stocks (small growth-company)	17	14	7	12
Treasury bills (3-month)	6	5	7	3

*In most cases, figures are computed as follows: Recession—average of performance during calendar years 1946, 1975, and 1982; boom—average of 1951, 1965, and 1984; high inflation—average of 1947, 1974, and 1980; low inflation—average of 1955, 1961, and 1986.

†Gold figures are based only on data since 1971 and may be less reliable than others.

‡Commercial real estate figures are based only on data since 1978 and may be less reliable than others.

Sources: Commerce Dept.; Commodity Research Bureau; DeBeers Inc.; Diamond Registry; Dow Jones & Co.; Dun & Bradstreet; Handy & Harman; Ibbotson Associates; Charles Kroll (Diversified Investor's Forecast); Merrill Lynch; National Council of Real Estate Investment Fiduciaries; Frank B. Russell Co.; Shearson Lehman Bros.; T. Rowe Price New Horizons Fund.

Source: Modified from *The Wall Street Journal*, November 13, 1987. Reprinted by permission of *The Wall Street Journal*,

- Business Risk

There is the potential that an investment's cash flow will not be sufficient to justify an investment is referred to as *business* risk. This risk can be broken into two categories. First, management must be able to maximize rents through properly maintaining and repairing the asset, collecting rents on time and controlling operating expenses. Second, market changes must be minimized by choosing a strong market for the particular chosen product-type mix as well as having a thorough understanding of the risks of future competition, transportation changes, traffic patterns and potential changes in demographics. Note that 50 Florida Avenue is located in a highly trafficked artery to and from NE Washington, DC, as well as being located one block from another major District artery bringing worked to and from the city via New York Avenue, the direct artery to Route 50 and I-295 (access to Baltimore, MD and I-95)

- Financial Risk

The value of equity invested estate is maximized through the use of debt. The greater the leverage the greater the returns if property values continue to climb; however, this is a double edged sword, as a large amount of debt can prove a great burden on the investor if property values decline and the investor is unable to cover debt service payments. In this scenario, risk is elevated. It should be noted that 50 Florida Avenue will be financed with fixed rate debt to lessen interest rate risk associated with a floating rate loan.

- Liquidity Risk

Real estate investing by its nature is an investment that ties up equity capital unless the property value increases rapidly and the investor can refinance at an aggressive loan to value ratio and thus "take out" their equity investment. This scenario was prevalent in the past five years with rapid asset appreciation in certain markets; however, normal times prove real estate to be an illiquid asset, not easily convertible to cash without sacrificing price. As a result, liquidity risk is usually high with real estate investing.

Current Alternatives:

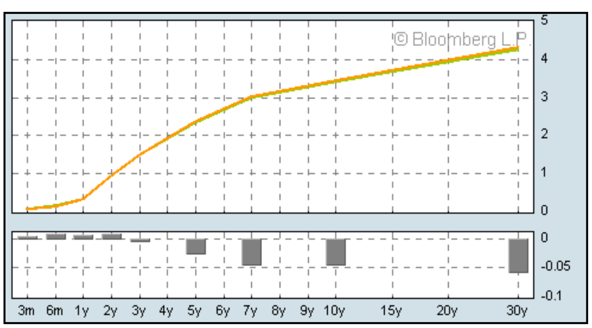
What should an investor expect from investment alternatives? There are many investment opportunities for an investor with varying risk premiums. These opportunities include money market investments (T-bills, CDs, and currencies), equity securities (stocks), fixed income securities (treasury notes, municipal bonds, corporate bonds and mortgage backed securities), derivatives (options and futures) and residential and commercial real estate (also REITS).

First, the concept of interest rate and risk should be addressed. This has been detailed in Investments. Supply, demand, government actions and the expected rate of inflation determine the *real* interest rate. That is, the *nominal* interest rate or the return from a time deposit guaranteeing a particular return is then reduced by that of *inflation* to get to the *real* rate. For this reason CPI (consumer price index) must be accurately determined moving forward to best understand the growth rate of one's purchasing power. As inflation increases, investors will demand higher nominal rates of return on investments. This higher rate is required to maintain the expected return on their investment.

$$r \approx R - i \quad \text{(real interest rate = nominal interest rate - inflation)}$$

Investors look to treasury bills, money market funds and bank savings accounts for safe, "risk-free" returns. As such, these investments carry a risk fee rate but those investments that carry greater risk will provide a risk premium for investors. This premium is based on risk of the instruments or assets.

Low risk investments include a money market fund which yields from 0%-.25%/year today, bank savings accounts yield from .10%-1.55%/year, a 10 year treasury note yields 3.41%/year, the typical AAA 10 year maturing municipal bond yields 3.30%/year and a 5 year CD averages 2.25%/year (most banks are not offering 10 year CD's due to current interest rate risk).



U.S. Treasury Bond Yield Curve as of 10/17/09: 10 year Treasury yield = 3.41%.

NATIONAL MUNICIPAL BOND YIELDS:
TRIPLE-A RATED, TAX-EXEMPT GENERAL OBLIGATION BONDS

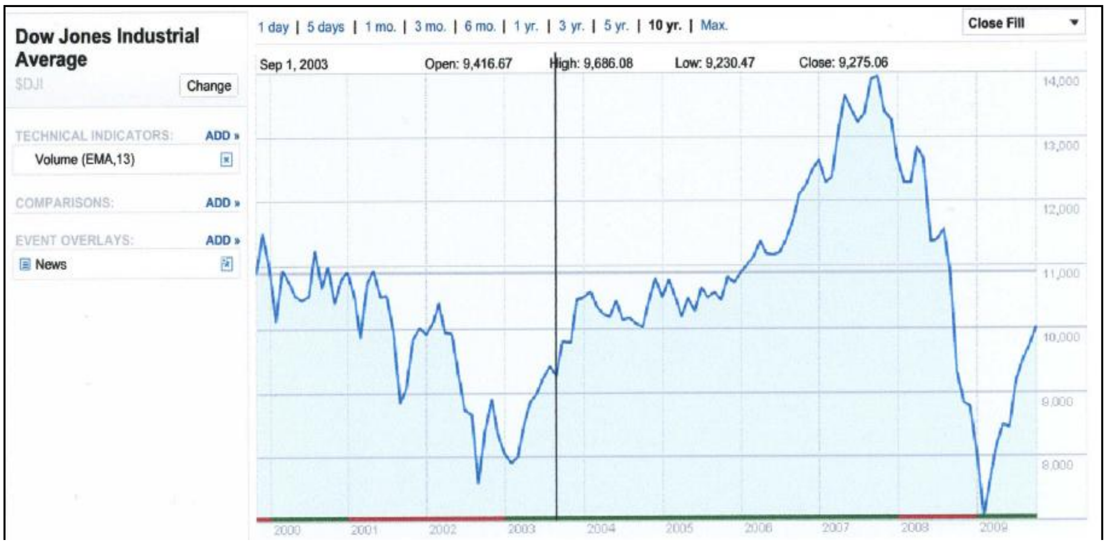
	CURRENT YIELD	PREVIOUS YIELD	CHANGE IN YIELD	28% EQ YIELD	1 WEEK PRIOR YIELD	1 MONTH PRIOR YIELD	6 MONTH PRIOR YIELD
2-YEAR	0.84%	0.81%	0.03%	1.17%	0.78%	0.81%	0.85%
5-YEAR	2.05%	1.99%	0.06%	2.85%	1.76%	1.83%	1.95%
7-YEAR	2.64%	2.60%	0.04%	3.67%	2.29%	2.36%	2.57%
10-YEAR	3.30%	3.23%	0.07%	4.58%	2.99%	3.12%	3.39%
15-YEAR	3.90%	3.88%	0.02%	5.42%	3.76%	3.80%	4.14%
20-YEAR	4.12%	4.12%	0.00%	5.72%	4.05%	4.09%	4.61%
30-YEAR	4.50%	4.50%	0.00%	6.25%	4.45%	4.52%	4.88%

U.S. Municipal Bond Yields as of 10/17/09: 10 Year yield = 3.30%.

- Equity Markets

Equity markets can be very risky but also lucrative if bought and sold in a timely manner or if the investor has time to ride the dips in markets.

To date, the Dow Jones industrial market index has lost over 30% of its value since mid-2007. Equities might serve to be risky in the next few years as corporate earnings are lagging, the government is in gridlock regarding the health care bill, and banks continue to fail at a steady rate. Further unemployment is nearing 10% nationwide. Some economic data does indicate that the recession, as Federal Reserve Chief, Ben Bernanke noted in October 2009, "…has likely ended."



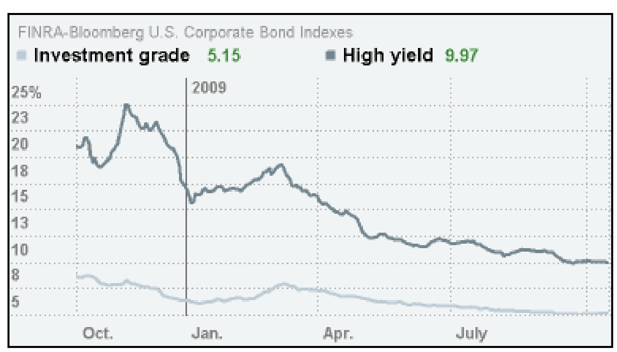
Dow Jones Industrial Average, historic 10 years to: 10/15/09.

- Bonds

Proper comparables must be used when making capital investment decisions. Real estate is a high risk investment and as such, similar investment vehicles must be researched. Corporate high yield and junk bonds rated by S&P and Moody's have coupons of 5%-10% but if interest rates continue to decline, these bond prices (and subsequent returns) will increase substantially as can be seen in the chart below for year 2009. If the investor believes interest rates are to decline, bonds are a wise investment due to resulting price increases. It is believed that inflation will take hold of the U.S. economy due to excessive, recent government spending, in addition to a slowing down of recent Treasury bond purchases leading to potential interest rate increase and bond devaluation.

<u>FINRA TRACE Corporate Bonds: 52 Week End: 10/15/09</u>

Returns due to price increase (yield decrease)



Yields

- Commercial Mortgage Backed Securities (CMBS)

These are mortgages that are securitized into bonds whose payments are generated from the monthly rental payments of the assets. High unemployment, low demand for products and services have lead to lower industry and service production, thus companies are downsizing and demand for office space is on the decline. This coupled with highly leveraged assets and declining property values have led to increasing vacancy rates and increased debt default rates. In October 2009, Barclay's Capital reported that CMBS credit performance has deteriorated at a steady pace. The rate of delinquency for more than 30 days rose to a 4.76% as loss severity continued to rise across all real estate sectors in September 2009. As a result, the risk for these bonds is high as are the returns. See below: A 10 year AAA fixed rate CMBS note = Swap rate (360 bps) + 525 bps = 8.85%.

Fixed Rate (Conduit)	Avg. Life	Spread (bp) 9/2	Week Earlier	52-wk Avg.
AAA	5.0	S+450	S+450	+854
	10.0	S+525	S+525	+757
AAA Junior	10.0	S+1,750	S+1,975	+2,192
AA	10.0	S+3,400	S+3,300	+3,273
A	10.0	S+4,100	S+4,100	+3,921
BBB	10.0	T+6,821	T+6,824	+5,286
Markit CMBX 05-1		**Dollar Price**		
AAA		75.5	76.6	72.6
AA		25.0	25.9	29.4
A		19.0	20.0	26.7
BBB		14.4	15.0	21.3
BB		5.4	5.9	12.8

Sources: Morgan Stanley, Markit

Swaps = 3.60% as of 10/15/09

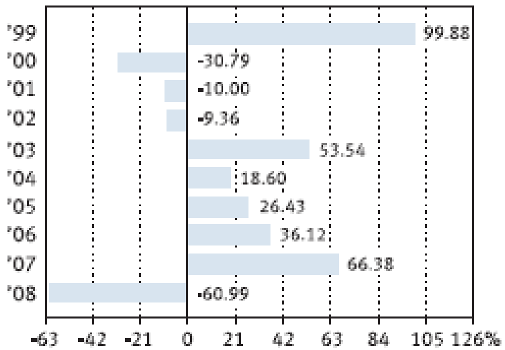
- Mutual Funds

One can hedge against potential losses on individual investment vehicles by investing in mutual funds that invest in certain instruments such as money market, bond, equity, fixed income, currency, index or specialized sector funds. In this way an investor can invest in a mix of securities under one umbrella managed by a company thus making it easy for investors to allocate assets across market sectors. See blow for examples of such funds. Again, the greater the risk, the higher the returns, as can be seen with the New Asia Fund returns which earned 18.98% over ten years.

Of course returns are not guaranteed as can be seen with the Equity Index Fund, labeled "medium risk," which lost 37% in 2008 and averaged only .39% over 10 years. The other examples demonstrate the concept of diversified risk and return further. T. Rowe Price's International Equity Index Fund, rated as high risk, averaged 3.68% over eight years, while the low risk U.S. Bond Index fund averaged a strong 5.48% over eight years. What does this say about investing? Diversification is paramount and one is not 100% protected from market fluctuations worldwide in the equity or bond markets.

New Asia Fund

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/99	42.04%
Worst Quarter	9/30/01	-23.76%

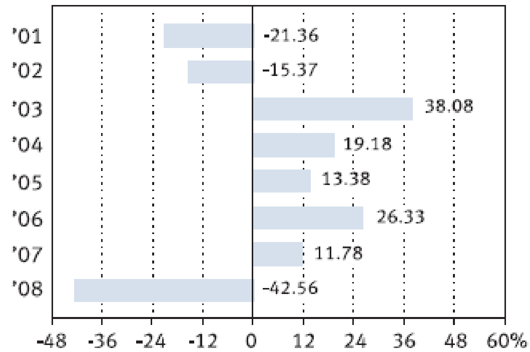
Companies located in: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Pakistan and Vietnam.

10 year average = 18.98%

Risk: VERY HIGH

International Equity Index Fund

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	19.77%
Worst Quarter	12/31/08	-20.09%

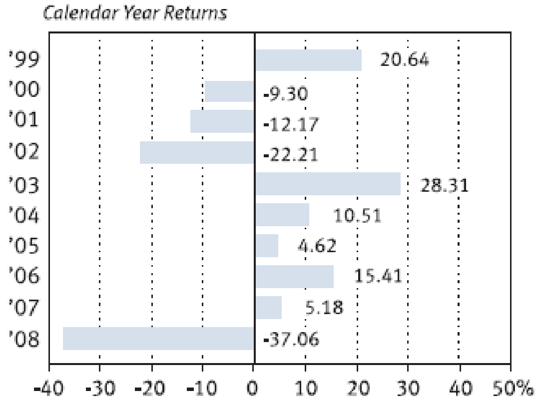
Dev. countries index: UK, Japan. Pac. Rim

8 year average = 3.68%

Risk: HIGH

Equity Index 500 Fund

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	6/30/03	15.33%
Worst Quarter	12/31/08	-21.94%

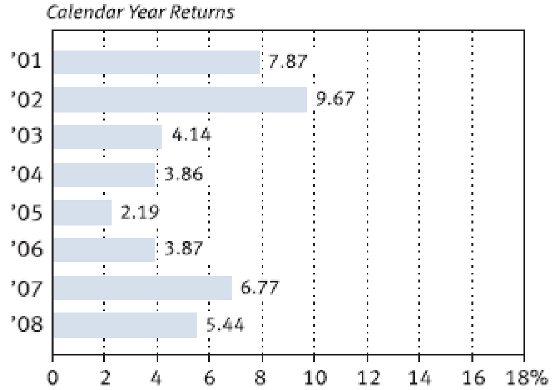
S&P 500 stocks/Large-cap U.S stocks

10 year average = .39%

Risk: MEDIUM

U.S. Bond Index Fund

Calendar Year Returns



	Quarter Ended	Total Return
Best Quarter	12/31/08	4.57%
Worst Quarter	6/30/04	-2.54%

Barclays Capital U.S. Aggregate Index/ U.S. Investment grade bonds

8 year average = 5.48%

Risk: LOW

**Source: March 1, 2009 - T. Rowe Price Index Fund Report*

- REITS

Real Estate REITS are a final alternative to residential and commercial investment. Today they are an attractive investment if bought at the beginning of 2009. Returns have appreciated as REITS have been successful at raising capital and investing in assets at lower historical prices.

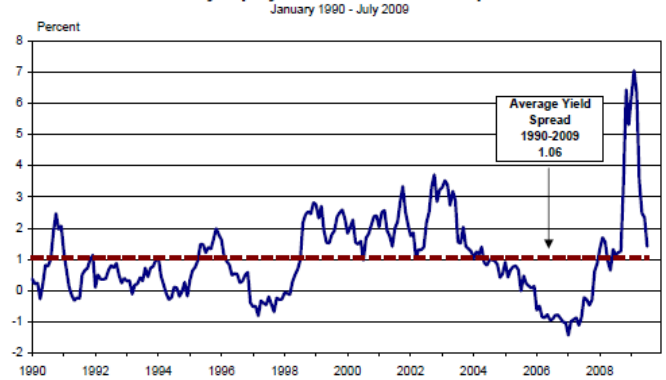
They are the third largest asset class available to investors outside debt and equity. REITS were created by Congress in 1960 as a way for an investor to participate in the investment of large scale, income producing real estate assets without taking on the direct management risk of operating these assets. Instead they buy stock in a trust holding many different assets. Over fifty years, the U.S. real estate investment trust (REIT) industry has become an important segment of the U.S. economy and investment markets. U.S. REITs have seen their equity market capitalization grow from $90BB to about $200BB in the past 10 years. Investors enjoy not only potential price appreciation but 90 percent of taxable income from these REITs is distributed to shareholders in the form of dividends. REIT returns enjoyed a premium over equities from 2002-2008 with real dividend yields at an average of 1.06%/year and annual yields in 2009 of 5.07%. It should be noted that per the "NAREIT US Real Estate Index Series" data, riskier REIT indexes such as Mortgage REITS and Hybrid REITS have yielded between 14%-15% in 2009.

Exhibit 1
Investment Performance:
FTSE NAREIT US Real Estate Index Series[1]
(Percent change, except where noted, as of October 31, 2009)

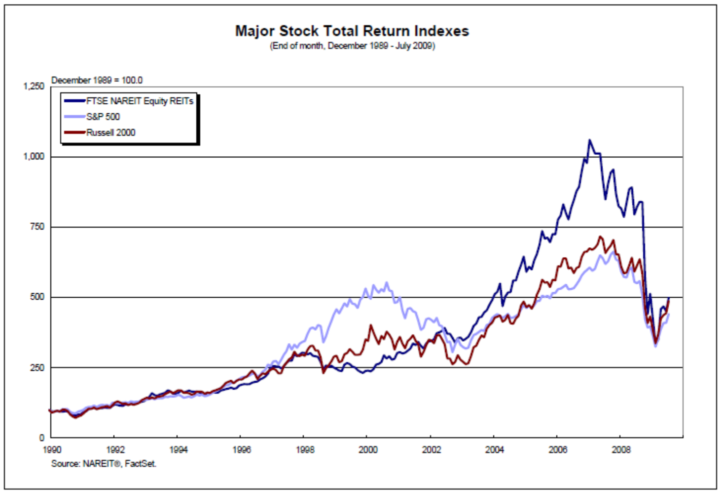
	All REIT Index			Composite REIT Index			Real Estate 50 Index™ [1]		
	Return Components		Dividend	Return Components		Dividend	Return Components		Dividend
Period	Total	Price	Yield[2]	Total	Price	Yield[2]	Total	Price	Yield[2]
Annual (including current year to date)									
2003	38.47	29.34	5.75	38.47	29.34	5.75	36.30	28.34	5.16
2004	30.41	22.87	4.97	30.41	22.87	4.97	35.00	28.31	4.24
2005	8.29	2.51	5.06	8.29	2.51	5.06	13.67	8.52	4.07
2006	34.35	28.31	4.06	34.02	27.98	4.11	35.64	30.28	3.67
2007	-17.83	-21.39	5.29	-17.83	-21.42	5.35	-16.34	-19.57	4.77
2008	-37.34	-41.04	8.37	-37.84	-41.56	8.32	-37.31	-40.78	7.22
2009	12.08	6.59	5.07	12.22	6.66	5.08	11.60	6.39	4.69

	Equity REIT Index			Mortgage REIT Index			Hybrid REIT Index		
	Return Components		Dividend	Return Components		Dividend	Return Components		Dividend
Period	Total	Price	Yield[2]	Total	Price	Yield[2]	Total	Price	Yield[2]
Annual (including current year to date)									
2003	37.13	28.48	5.52	57.39	38.19	8.57	56.19	44.85	6.77
2004	31.58	24.35	4.66	18.43	7.92	8.15	23.90	15.69	6.24
2005	12.16	6.67	4.57	-23.19	-30.88	10.68	-10.83	-17.16	7.97
2006	35.06	29.51	3.69	19.32	8.44	9.19	40.95	31.19	6.33
2007	-15.69	-19.05	4.91	-42.35	-47.69	10.52	-34.77	-40.17	12.16
2008	-37.73	-41.12	7.56	-31.31	-40.46	14.47	-75.53	-78.38	49.56
2009	11.73	6.79	4.12	17.23	5.73	14.98	11.33	6.69	14.56

Exhibit 7:
Monthly Equity REIT Dividend Yield Spread[1]
January 1990 - July 2009

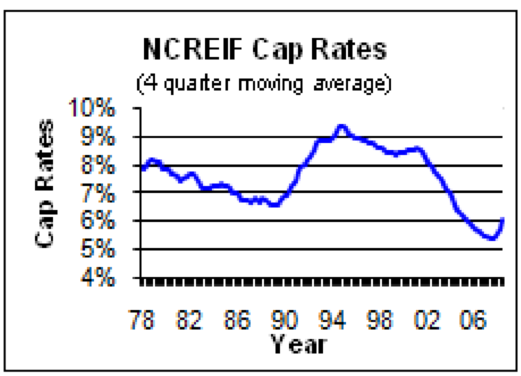


Source: NAREIT®, FactSet.
Notes:
[1]Yield spread calculated by taking the Equity REIT dividend yield less 10-year constant maturity Treasury yield.

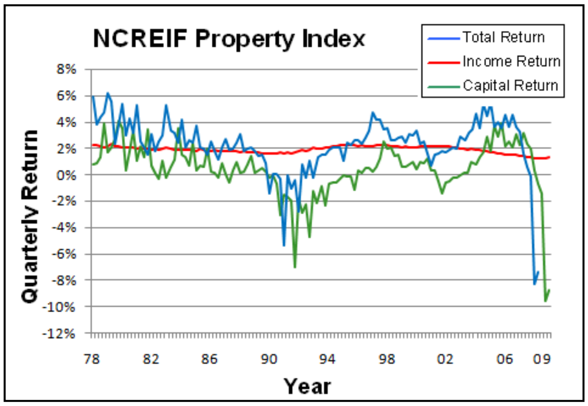


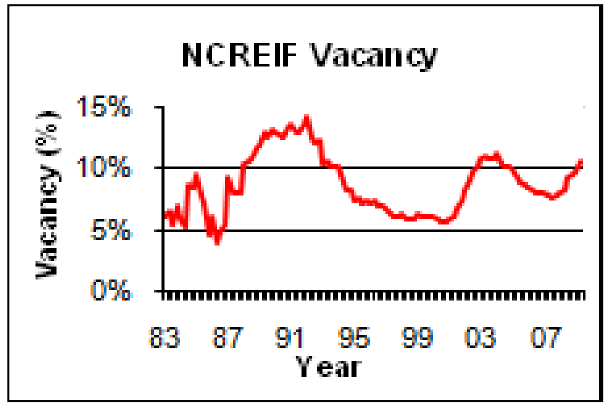
Commercial Real Estate:

This asset class has historically averaged healthy returns for equity investors and debt investors alike. Capitalization rates or that rate of return for a particular year of the investment hold *(NOI/value = r)* have generally reflected the appropriate risk for asset classes; however, I would argue that these rates plummeted in the past 5 years due to cheap financing and excessive tenant demand due to a strong economy and as a result, investor demand due to increased asset valuations, thus pushing annual returns to low levels that did not reflect the risk of operating the assets. A history of these rates can be seen in the chart labeled, "NCREIF Cap Rates."



Returns from commercial assets are derived from their net operating incomes. That said, many factors and risks are involved in determining this figure. Revenue based on tenant's rent may fluctuate based on area economic factors, individual business operations and ability for ownership to maintain and attract strong tenants. Operating cost risks vary depending on the lease but typically, the landlord is responsible for paying most of the operating expenses up front and then collecting reimbursements from tenants. Risk from fluctuations in tax, utilities, repairs/maintenance and management expenses can decrease the net operating income and lower the value of a property. Finally, economic disruptions may lower demand for real estate and decrease bid prices for assets. Commercial real estate investing rests at the top of the high risk/expected return matrix for investors and should be treated with the great due diligence. As can be seen in the below graph, today's vacancy rates are increasing and historical capital returns for commercial property has dropped drastically in 2008. Values are only now starting to potentially rise.





III. Development Program

There has been massive office and residential development over the past 4 years in the NoMa market of Washington, DC. Much of this has been speculative. The parcel is unique in that it is located within the NoMa market and thus it enjoys the positive buzz that has followed office development. The exception is the government services tenants that have served as a demand anchor for the market to date. Today, most of these buildings and lots stand vacant due to a high supply of Class A office product waiting for the economy to improve and subsequently, the credit freeze to loosen, allowing for greater office demand and the return of construction financing for new development. As can be seen from the chart below, NoMa has a large supply of retail, residential, hotel in addition to office. As previously noted the office buildings delivered are standing vacant, except for those with GSA tenants.

50 Florida Avenue must meet the desires of the immediate neighborhood and offer a supply of product that does not already exist in NoMa. Student housing plus neighborhood retail is the primary development goal but it must be highlighted again: the market must be re-reviewed after three years to ensure that this is the best product mix.

Today the parcel is a great risk for the developer who believes he can buy, attain construction financing, secure tenants and attain competitive rents. The market will not support this as can be seen in NoMa's demand glut today. But it may be an opportune time for a consortium of buyers to make an offer to a motivated seller for a building that can serve an income producing function for three years and then when the financing and economic environment have improved, attain the necessary construction financing to build a building at maximum density and serve the residential and potential market demand of the neighborhood. This will be detailed in the Market Analysis section of the report.

The development program will be done in two phases to best work with the economic environments of today and the perceived future.

Phase I - Existing Structure:

First, Phase I will be a mixed-use, retail/artist housing redevelopment of the existing structure or possibly held as a warehouse. The existing structure is a three-story, 60,000 square foot (20,000 SF foot print) warehouse structure with 5,000 square feet used as retail/ice distribution. The new uses of the current building will attempt to meet the demands of today. It has been estimated that the total usable square feet will be 85% of the total. The uses for a retail/artist housing scenario are as follows:

- Floor 1: 5,000 SF - Convenience store/delicatessen
- Floor 1: 6,283 SF - Warehouse/Storage
- Floor 1: 6,283 SF - Warehouse/Storage
- Floor 2: 16,720 SF - Artist live/work studio (to be broken up into 8 - 2,090 SF studios)
- Floor 3: 16,720 SF - Artist live/work studio (to be broken up into 8 - 2,090 SF studios)

The 5,000 SF convenience store use will entail minimal tenant improvements as this is its present day use. The existing store's lease is month to month and will be terminated so as to sign a more upscale user who will serve the existing and new residential demand for a bodega with beer, wine, delicatessen, home supplies and fast food uses. The two existing 6,283 floor bays will be leased to catering businesses who seek temporary warehouse space in the District but near major ingress, egress points to reach customers within the District but also along the Baltimore Corridor and along Route 50. They need truck access with zero build out.

The artist studios must be divided into 16 units over 2 floors. They are to be in the style of bare minimum lofts with bathrooms for each plus insulated walls with exposed venting for heat and air. These costs will be detailed in the Financial Section of the report.

Zoning requires 1 space of parking per residential unit (16 spaces) and 1 spot per 3,000 gross square feet of warehouse space. This totals 4 spaces (12,566 gross warehouse SF/3,000 = 4.18 spaces). For small retail or service establishment, it is required that there be 1 space per 750 SF over 3,000 SF (5,000-3,000 = 2,000/750 = 3 spaces). There are 45 existing spaces on the site, allowing for an oversupply of 22 spaces. This lot will be restriped to account for updated parking and warehouse truck ingress and egress.

In summary, if not used solely as a warehouse, Phase I will require minimal build out and capital investment as sewer, fire and telecommunications lines are already in place. Additional power and water will be required however, as will costs associated with the build out of the artist space, environmental surveys, permits and architect/engineering expenses. Again, Phase I is a "hold and redevelop strategy" and is a means to acquiring a property located in a highly trafficked location that will enjoy growing demand as the economy improves. Further, it is a location that is well served by the planned office, residential and retail product in NoMa as well as it close proximity to Metro.

Zone	CM2
Permitted Uses	
Residential	Artist studio/Student PUD
Commercial	Retail, Office, Manufacture
Lot Occupancy	Unlimited
Density	4.0
Height	60 ft
# of Stories	No limit
Rear Yard (14.8') - OK	2.5"/1' height. Min. 12'
Side Yard (17.8') - OK	3"/1' of height. Min. 8'
Parking - (Note: to be reduced 25%-50% w/ PUD)	
Residential	1/unit
Office	1/800 SF above 2,000 SF
Retail	1/750 SF above 3,000 SF
Warehouse	1/3000 SF

Phase I	
Zoning Analysis	CM2
Site Area	40,659
FAR	4.0
Permitted Density	162,363
3 story footprint	20,000
3 story coverage	49%
Height	60 ft

Phase II - New Structure:

Phase II will occur at or shortly after year three of the initial investment hold period. The new development will replace the existing 60,000 square feet structure and in its place will be constructed, a 162,000 square foot mixed-used planned unit development (PUD) so as to take advantage of an increased height allocation, adding another 30 feet of the existing “by right,” 60 foot height limitation. This totals 90 feet in height. Further, floor plates will be increased from 20,000 square feet to 27,000 square feet to take advantage of the 4.0 floor area ratio (FAR), providing for maximum density. An underground parking garage will be constructed to account for 135 cars (this may be reduced by 50% with city approval). This is in accordance with the DC parking codes and discussions with District transportation officials. It should be noted that a “Traffic Impact Analysis” will be ordered to aid in the final determination and approval of parking requirements.

The new structure will have 6 floors at a total of 71.5 feet in height. This is calculated as follows: Floor 1 (retail) will be 10’ in height plus a .75’ concrete floor and 2’ for electric, HVAC and plumbing ducts. The remaining five floors will have a height of 9’, also with a .75’ floor and 2’ allotted for electric, HVAC and plumbing. The base floor will consist of 27,000 square feet of retail. CVS and Wallgreens have been contacted and this location and space may be desirable for such tenants. These companies are between rated AA and BBB+ rated by Moody’s and Standard and Poor’s rating agencies. They also are agreeable to triple net leases, placing the risk of operating expenses directly to the lessee. A local food market is also in demand by the District of Columbia for this location. As such, a Yes! Organic Market or Trader Joes would also be a desirable tenant.

The remaining 5 floors will serve the most appropriate demand in 2014-2023. Class A office product is in oversupply in NoMa but Bernstein Management Corporation successfully renovated a 50,000 square foot former industrial property at 118 Q Street, NE into Class B office studios in 2002. These are being leased to office tenants in the high $20/SF range (NNN). NoMa’s Class A office space asking rents are in the $40-$45 range, thus a well located office asset in NoMa for half these rents might generate demand in three years. Further, office condominiums have had some popularity in DC for the past three years due to low borrowing rate, city bond financing. There might be a demand for such product if the rental space is absorbed and lease rates increase upon an economic recovery. Current sales are in the $350-$450/SF sales range with $50 allocated for tenant improvements. Again, the demand may not exist for such uses due to current and future oversupply but these are potential options.

A final potential use for the remaining five floors is student/intern housing. The model used for this use is derived from The Washington Center, an independent organization serving national and international universities, providing students internship opportunities in Washington, DC. They are currently constructing a 140,000 square foot, 95 unit residential project located at 1001 3rd Street, NE for these students.

In speaking with Dr. Hassan Minor, Howard University's Senior Vice President of Strategic Planning, Operations & External Affairs, I have found that currently, all housing needs are being met by Howard University and neighboring universities Gallaudet and George Washington. It is conceivable that these schools may have interest in over flow housing if enrollment increases and there is a need for additional housing. Despite today's lack of demand for such a use, it is necessary to analyze the scenario for potential future demand.

It has been estimated that the total usable square feet will be 85% of the total to account for stairways/elevators and corridors. The uses for this mixed use project are as follows:

- Floor 1: 27,000 SF - Retail
- Floor 2: 20,250 SF - Residential (Alternative: Office/Office Condo)
- Floor 3: 20,250 SF - Residential (Alternative: Office/Office Condo)
- Floor 4: 20,250 SF - Residential (Alternative: Office/Office Condo)
- Floor 5: 20,250 SF - Residential (Alternative: Office/Office Condo)

Initially, underground parking will be required for a maximum of 180 with the student housing product and a minimum of 97 cars with the office product solution. A parking requirement exception will be applied for and as a result, required parking of 180 cars can be reduced by 25%-50% due to the fact that the asset is within 800 feet of metro and is anticipated to be designated at a PUD. As such, an estimate of 130 spaces over two levels will be required. It should be noted that during conversations with Mr. Travis Porter of the Department of Zoning, it was emphasized that the city favors public transportation. A parking exception could reach 50% for this project requiring only 90 spaces.

Parking Estimates:

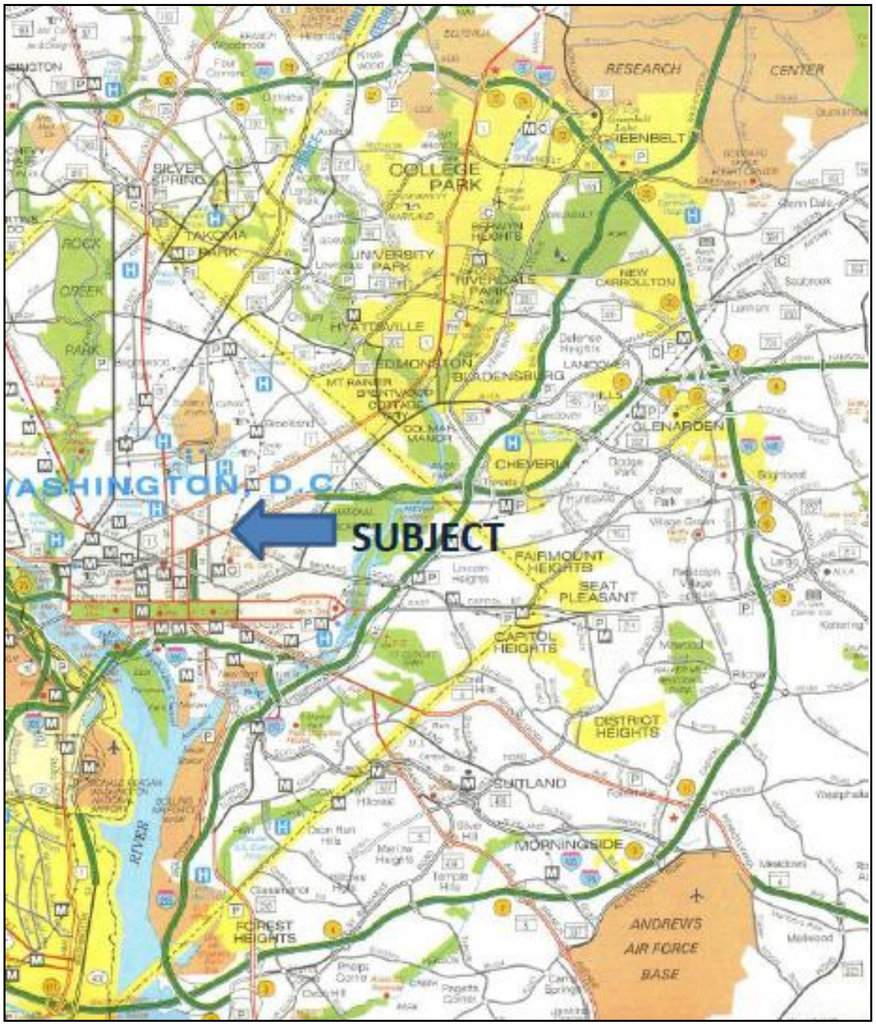
Parking	Office	1/8000 sf of gross floor area over 2,000 sf	17
	Retail	1/300 gross sf in excess of 3,000 sf	80
	Multifam	1/unit (20 units/floor. 5 floors =)	100
	Max Total		180
	Exception due to proximity to Metro (.75 of total)		135

In summary, the 162,000 structure will require added power and water to support a potential housing or office build out. The market will determine the use of the top five floors but it is assumed that office or student housing will serve as the primary use of the mixed-use project. Phase II will serve as the means to creating value from the construction of a structure in a high growth market that will serve a particular demand. The rents or sales (if office condo) will determine the value and it is assumed that a sale (if rental scenario) at the end of the hold period will generate a potential return for my investors.

Phase 2	
Zoning Analysis	CM2
Site Area	40,659
FAR	4.0
Permitted Density	162,363
6 story footprint	27,106
6 story coverage	67%
Height w/ PUD	90 ft

IV. Site and Property Description

The parcel is well situated at 50 Florida Avenue, NE just west of the major intersection at New York Avenue. This is important as New York Avenue is a direct artery for those traveling to and from downtown Washington DC from the Baltimore Washington Parkway, Route 50 and eventually to I-495 via I-295. This gateway to Washington feed into Florida Avenue which leads commuters to and from NW Washington, DC.

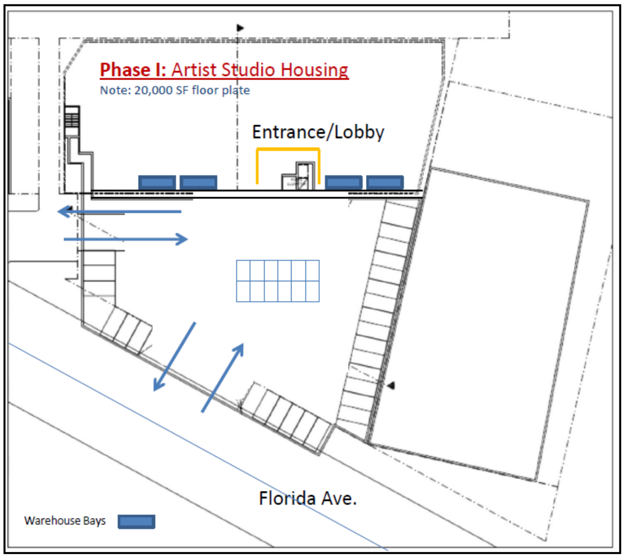


Access and Egress:

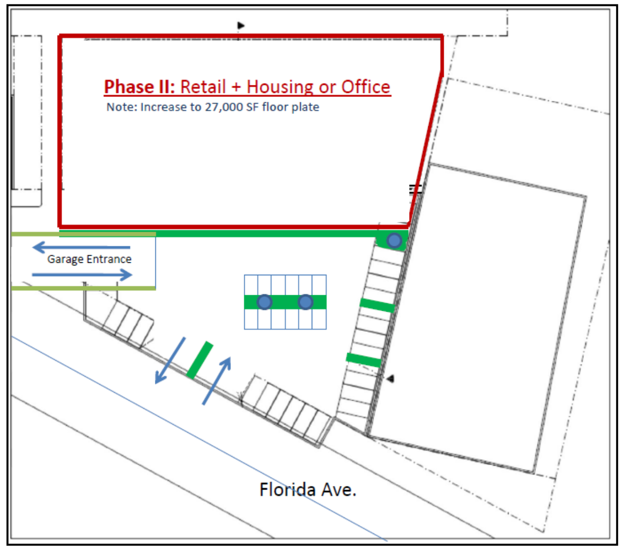
Access to the site is through two entry and exit ways. The first entrance and exit is off of Florida Avenue and the second is via Florida Avenue at the former Porter Street access. The preferred ingress and egress for those traveling east and west on Florida Avenue will be from what I will refer to as the "retail" access. This will be at the front of the property and will allow cars wishing to shop to enter and exit at this point to use the front parking lot. Parking will serve short term shoppers. The second entrance will serve the residential and potential office users. This entrance will be 75 yards northwest of the retail entrance and will allow for access to and from the underground parking lot. A required "Traffic Impact Analysis" will be conducted to better understand this new access and egress point. This location is traffic heavy and thus it has been directed from the District Government that a new traffic signal and appropriate pedestrian striping will need to be added by the developer at a cost of $200,000-$300,000.

While appropriate parking will be provided for all potential uses; specifically, that being an office or office condominium use (if the market should support), it is assumed that the District will reduce parking requirements by 25%-50% of that required in the zoning code. This has been verified by conversations with representatives at the District Zoning Commission and the Department of Transportation (DDOT).

See below for access and egress points for Phase I and II of the project. Note that there is risk of congestion at both points due to traffic flow to and from the main entrance and underground garage. It is anticipated that that new traffic signals will alleviate this problem to a lesser degree.



Phase I



Phase II

50 Florida Avenue, NE


Subject view front 1 (north)


Subject view front 2 (north)


Subject view rear (north)


Subject view east side


Subject view west


Subject view west


View west: Florida/NY Ave.


View east: Florida Ave

The transportation network for the subject property is excellent and will prove a strong amenity for tenants and customers. The 90, 92, 93 and x3 Metro Buses run east and west on Florida Avenue, providing direct access to NE and NW Washington. The Red line Metro can be accessed 3.5 blocks from the subject site thus providing access to the entire city. Union Station is one stop from the New York Avenue station and is a 15 minute walk from the subject. Here, access is provided to MARC and AMTRAK transportation. Again, the proximity to Metro public transportation will allow for a forgiveness of parking for the project. See below for public transportation detail:

Bus stop information from New York Ave-Florida Ave-Gallaudet U Station

All frequencies in this table are shown in minutes; check schedules for full details.

Take Route	DESTINATION	Serving	Bus Stop	Operator Code	Monday to Friday AM Rush	Monday to Friday Midday	Monday to Friday PM Rush	Saturday Day	Sunday Day	Fri/Sat Late Night
90	DUKE ELLINGTON BRIDGE	Florida Ave, Calvert St, Woodley Rd	B D	Metro	8-15	16	8-15	24	30	--
90	ANACOSTIA M	Florida Ave, 8th St, MLK Jr. Ave	A C	Metro	8-15	16	8-15	24	30	--
92	DUKE ELLINGTON BRIDGE	Florida Ave, Calvert St, Woodley Rd	B D	Metro	8-15	16	10-14	24	30	36-45
92	CONGRESS HEIGHTS M	8th St, Good Hope Rd, Alabama Ave	A C	Metro	8-15	16	10-14	24	30	36-45
93	DUKE ELLINGTON BRIDGE	Florida Ave, U St, 18th St	B D	Metro	1 trip	--	--	--	--	3 trips
93	CONGRESS HEIGHTS M	8th St, Good Hope Rd, Alabama Ave	A C	Metro	1 trip	--	--	--	--	30-45
X3	McLEAN GARDENS	Florida Ave, Calvert St, Woodley Rd	B D	Metro	15-28	--	30	--	--	--
X3	MINNESOTA AVE M	Florida Ave, Benning Rd	A C	Metro	15-28	--	30	--	--	--

Service runs less often in the early morning and late evening

Bus operator codes in Washington DC, Maryland and Virginia

The surrounding neighborhood can be separated into two sections:

- Immediate, residential neighborhoods.
- The commercial, NoMa market.

Residential Neighborhood:

The immediate residential neighborhood is comprised of Eckington to the north, Truxton Circle to the west, Le Droit Park to the northwest, Gallaudet to the east and the future, residential NoMa neighborhood to the southeast. These leafy residential neighborhoods surrounding the subject are comprised of middle and working class residents inhabiting early 20th century row houses who have surprisingly limited retail amenities. As such, the city has expressed great interest in providing such for the community and as a result, will most likely welcome a PUD plan for the 50 Florida Avenue site (demographics will be detailed in the "Marketing" section).

Examples of neighboring residential market: Quincy Place, NE - "Eckington"

In describing the surrounding neighborhood in the context of the project and the plan for an anchor retail tenant, it is important to detail District, "Small Area Plan." These plans supplement the District's Comprehensive Plan by providing greater detailed direction for city block, corridor and neighborhood development. These plans allow citizens to develop the future shape of their communities though identifying gaps and opportunities in city services and resources deployed at the neighborhood level. These studies create a recommendation to help in the future development of a market, specifically, how retail, office and housing will be handled. In short, these plans put the community at the driver's seat of the city vision and in turn, help to establish goals which lead to action items to make it a reality.

The NoMA Vision Plan and Development Strategy, completed in October 2006 has been submitted to the DC Council for adoption as a Small Area Plan. The draft for the North NoMa neighborhood has called for a strong vision. As is stated in the plan, "strong connections to the Ekington neighborhood at the northern end of NoMa suggest the importance of residential development with neighborhood-serving retail for both residents and commercial tenants in the transition to the larger scale, commercial structures along Florida and New York Avenues." The land mix is detailed as follows:

Land Mix:

- Moderate, medium and high densities
- Commercial-residential and light industrial mix with larger scale, commercial-residential mix along tracks
- Larger scale, more commercial and light industrial character closer to Florida Ave./NY Ave intersection
- Smaller scale, more residential character closer to northern boundaries and existing residential fabric.

Considering the descriptions, the demand for retail by the city and community is evident.

The commercial/office market of NoMa is to be considered the future, northeast Washington, DC gateway. As such, it is an important economic and demand driver for the 50 Florida Avenue project. As described in the executive summary, development in NoMa over the past three years has been monumental. Unfortunately the market has subdued the demand for this market but it is predicted that this will re-emerge as a desired residential and office destination in the next three to five years. As such, it must be detailed.

NoMa Neighborhood:

NoMa, a former industrial area is striving to be a 24 hour mixed-use neighborhood with more than 20 million square feet of new development planned over the next 3+ years. As noted, the market is centered by the New York Station Metro stop to its north and Union Station to its south. Public transportation is key to this community as it allows for a transit oriented mixed-used solution to those seeking an urban live and work environment. Currently, two strong companies inhabit the market. XM Satellite Radio and the U.S. Bureau of Alcohol, Tobacco and Firearms. The Department of Justice is to follow in 2010. Multifamily construction is being completed at the southeast section of the market today with 1,300 total residences planned over the entire NoMa market. 100,000 SF of total retail product will follow as more office is leased and residents follow, seeking goods and services.

Today, the market is in a hold pattern due to the state of the economy and subsequently the capital markets (credit is tight). This is anticipated to change in the coming years. As it does and companies expand, they will hire and need space to conduct business. NoMa will be a choice market due to proximity to public transport, Capitol Hill and major arteries to neighboring cities such as Baltimore as well as suburban Maryland and Virginia communities.

V. Market Analysis

Washington, DC continues to grow. It is a rapidly changing city especially due to the current economy and past job growth in the region. While growth has slowed, opportunity still thrives in the District. In the past, this job growth grew the city tax base and helped provide money for infrastructure, needed residential options, office space and retail to support the growing population. High financing leverage of the mid to late 2000's coupled with job growth promoted construction in former industrial areas and underutilized land was transformed to higher, better uses.

Today, the country is experiencing the highest unemployment rate in 26 years and fiscal tightening is the norm for private companies. The District, while tightening its fiscal belt too, still boosts lesser unemployment at 6.0% (District-Arlington-Alexandria MSA-Aug. 2009) than the nation which, according to the U.S. Bureau of Labor Statistics (Oct. 2009) is at 10.2%. It is still the source of jobs and will continue to be so when the country emerges from the recession.

Metropolitan-DC Trends:

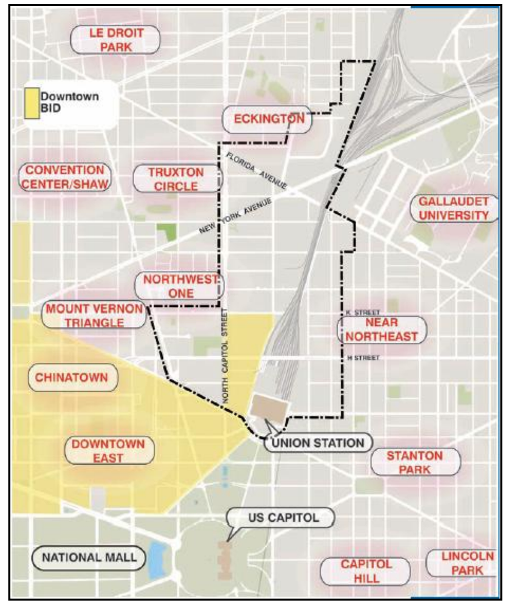
The District will see a time of change in the next decade. According to Section IV of the District Office of Planning's "Florida Avenue Market Study - Small Area Plan", dated: June 2009, vehicle use is down by 4% since 2007 and there has been an increase in public transit ridership by 6% since 2007. As oil prices increase, public transit ridership should increase as well. This new behavior trend in how people commute for work and pleasure will serve as a map to how developments are created. Density will increase near major public transportation hubs such as Metro. Walking and biking will also increase. In short, people will want to avoid long commutes and be closer to city centers or their places of employment. They will want housing and retail choices nearby as well. As such, the District has tailored and continues to tailor their comprehensive and small area plans to account for this shift in urban demand. The NoMa Plan and NE Gateway are attempts to concentrate investment potential to meet government and community priorities. Per the 2006 Comprehensive Plan, these plans are created to "guide long-range development, stabilize and improve neighborhoods. Achieve citywide goals and attain economic and community benefits." Specifically, the NoMa Plan of 2007, which includes the subject property, encourages mixed use development that while respecting the historic preservation of such properties, also promotes new uses for land such as office, retail and residential and encourages the construction of properties to support tourism, urban design and a pedestrian friendly environment.

In short, through conversations with city officials from the Office of Zoning, Office of the Deputy Major, Department of Transportation and the Office of Planning plus through the inspection of the "NoMa Small Area Plan," the District's "Comprehensive Plan" and "Future Land Map," it is evident that the city wants development that encourages density and provides services for the community. Gateways to the District have also been highlighted for such purposes.

The trade area for the property is to include what was described in the "Site and Property Description," being the immediate neighborhoods in a 1-2 mile radius of the subject, plus the commercial NoMa market. These are highlighted for the retail component of the project in Phase II. The remaining uses of student housing and potential office will reflect the broader economic demands of the city and region. This will include an inspection of the office market and student housing demands.

On a macro scale, the trade areas are the business and residential neighborhoods of the District. On a micro-level, the trade area includes the immediate neighborhoods of the subject. See below:

Submarket Map



Immediate Market Map

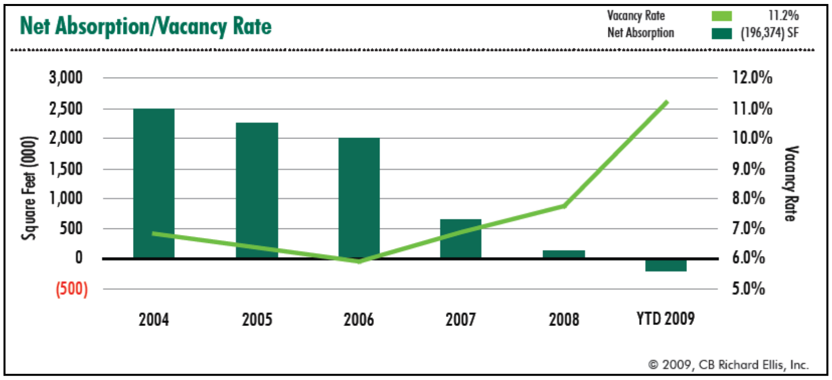
Product Supply Alternatives:

In defining the profit maximizing use for 50 Florida Avenue, it is imperative to understand the development options for the site. In short, what are the alternative uses? C-M-2 zoning allows for commercial uses, thus hotel and office uses were investigated plus the potential use as parking for buses or taxi cabs.

- Office

The overall office market in Washington has been strong but has succumbed to oversupply and disintegrating economic factors over the past year. This has resulted in rent compression and it is now a "tenant's market," meaning that they have a great supply of product and the upper hand in new lease negotiations as landlords struggle to keep income flowing into their investments. Rent concessions have been popular and subleases have increased. There has been a 123% increase in sublet space year over year to 1.9MM square feet, accounting for 1.6% of the total District inventory compared with .8% one year ago.

By the end of 2009, the District will report the largest amount of new product in the city's history. To date, a total of 5.1 million square feet is now under construction and almost 4.6 million square feet of new product has been delivered, of which 27% was committed upon completion which means the balance is either vacant or in the process of being leased. This will be tough with so many options available to tenants today. Overall vacancy for the District should be 12.5% by year end.



Quick Stats

	Current	Change from last Yr.	Change from last Qtr.
Vacancy	11.2%	↑	↑
Lease Rates	$48.16 FS	↓	↓
YTD Net Absorption*	(196,374) SF	↓	↓
YTD Completion	4.6M SF	↑	↑

Asking rents have continued to decline to $48.16 as building owners respond to the increase in office supply. It should be noted that this was a 9.1% decline from the $52.83 asking rate from one year ago.

While the city is experiencing negative absorption, NoMa has not been able to fight this trend. While the existing data from CBRE's Q3 MarketView report shows NoMa at a 16% vacancy, this only includes completed properties. It is more accurate to review existing buildings and those properties being delivered in the next three years to understand the real vacancy rate and as such, the amount of supply in the market serving as future, potential completion to 50 Florida Avenue.

Submarket	Inventory SF	Vacancy Rate %	3Q Net Absorption SF	YTD Net Absorption SF	Under Construction SF	Average Asking Lease Rate ($ SF/YR)
Capitol Hill	4,772,858	8.7%	(6,901)	34,412	165,000	$49.20
Capitol Riverfront	3,303,744	17.6%	121,553	163,068	-	$47.10
CBD	38,337,375	11.3%	(449,941)	(289,831)	1,179,224	$49.33
East End	41,858,145	10.1%	60,836	(296,904)	392,000	$51.62
Georgetown	2,753,893	14.3%	(31,763)	(16,014)	-	$41.67
NOMA	7,713,556	15.9%	275,527	329,155	1,381,651	$42.50
Southwest	10,642,541	13.5%	27,658	40,604	1,965,000	$49.07
Uptown	7,091,963	7.4%	27,727	(158,913)	-	$36.32
West End	3,545,970	8.3%	(36,933)	(1,951)	-	$44.39
District of Columbia Total	**120,020,045**	**11.2%**	**(12,237)**	**(196,374)**	**5,082,875**	**$48.16**

Total office square footage in existence plus that to be delivered in 2011-2012 (note: uncertainly of true delivery due to unstable capital markets and pre-leasing requirements) is 7.7 million square feet. Space that is currently occupied and that which is preleased to government entities, namely space located at Constitution Square (1.4MM SF) equals, 2.2MM square feet. As such, there is 5.5 million square feet of Class A and B space to be delivered and absorbed in the next five years if in fact, it can even be delivered.

Class A space is not an option for 50 Florida Avenue at this time due to over-supply in NoMa. The only potential option that exists is that of Class B space at competitive rates for those wishing to be near the center of NoMa if the market should prove popular in the next few years. It is possible that 50 Florida Avenue could deliver space at rental rates below the $40-$45/SF currently on the market today. For example, Bernstein Management Corporation's 60,000 square foot warehouse space rehabilitation of 100-140 Q Street in 2000, located just off of Florida Avenue is a success example. They are 100% occupied and receive rents in the high $20's NNN. Class B office space may be in demand in the future and as such, a financial analysis is detailed in the "Financial" section of the memorandum.

Further, office condominiums may be back in demand in a few years with the help of the District's bond financing program for non-profit organizations seeking below market rates for purchase financing of such condominiums. If supply is absorbed and rents increase, the purchase of office condominiums for the purpose of taking advantage of interest deductions on taxes coupled with anticipated value increases may make demand for such investments a desired use for 50 Florida Avenue.

According to Olivia Shay-Byrne, a lawyer at Reed Smith in Washington, DC who has worked with several nonprofits seeking to buy office condominiums, Washington, DC has 1,904 associations, occupying 14.8 million square feet. 1,148 of them are in Washington's central business district, demonstrating a demand for the District location by non-profit and association users. As such, District bond financing has historically been available to these buyers making it a favorable alternative to leasing. Again, the market will determine this demand in the future. A financial analysis has been conducted for this use and is detailed in the "Financial" section of this memorandum.

- Hotel

Washington, DC is fast becoming the international city and I believe it will take its rightful place as a destination not only for those seeking to view the monuments, but also for cultural attractions, art, music and retail. It will be a destination for conferences, office travelers and vacationers. Budget hotels will be in demand within the District. 50 Florida Avenue, while a strong location for a limited service hotel, is a weak choice due to the recent supply in the immediate market.

In conducting field research, I drove the mile radius of the subject to find six main competitors for business and leisure travel. I spoke with the manager at each hotel to attain room rates.

1. Courtyard Marriott, located at 1325 2nd Avenue, NE next to the New York Avenue Metro Station (218 rooms - $150 - $200/night).

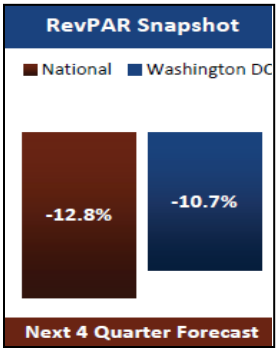
2. Howard Johnson Hotel (30 Rooms - $99/night) at 500 New York Avenue, NE.

3. Quality Inn by Choice Hotels at 501 New York Avenue, NE (79 Rooms - $129/night). These cater to low budget travelers and are listed in international travel guides at downtown destinations near Metro. As such, international "back packers" and U.S. road travelers frequent these hotels.

4. Comfort Inn Suites at 1600 New York Avenue, NE (136 Rooms - $109/night) is situated about .50 miles from the subject and not located near any amenities or shopping.

5. Fairfield Inn Marriott at 2305 New York Avenue, NE (156 Rooms - $109-$189/night, Suites - $200-$300/night)

6. Holiday Inn Express just next door to the Fairfield Inn at 1917 Bladensburg Road, NE (126 Rooms - $199/night) offer travelers convenient lodging just off of Route 50 and Route 295 (Washington Baltimore Parkway).



These hotels have fared well and managers have indicated that 3-4 nights of 65%-75% + occupancy were common. This may be attributed to tourists and business travelers seeking close proximity to the city with access to public transportation to get further downtown without the worry of traffic. This trend; however, was decreasing and it was forecast that occupancies and revenue per available room would decelerate over the next 2-3 years. See Hotel Horizons, RevPar chart: (Sept-Nov. 2009)

The current room supply in the entire Washington, DC market is 99,641 rooms. Of that, 26% are listed among the "upper-price brand" profile. 11% are classified as "lower-priced brands" with 30% of supply in the pipeline. See chart below for complete Washington, D.C. market profile.

Hotel Horizons®, September - November 2009 Edition — *Washington, DC*

Washington DC Market Profile — **Total Room Supply: 99,641**

Washington DC Top Brands

Upper-Priced Brands	Properties	Rooms	% Market	Lower-Priced Brands	Properties	Rooms	% Market
Marriott	18	8,388	8.4%	Comfort Inn	34	3,941	4.0%
Hilton	13	5,152	5.2%	Hampton Inn	24	2,760	2.8%
Holiday Inn	21	4,473	4.5%	Days Inn	17	1,776	1.8%
Courtyard by Marriott	26	4,380	4.4%	Hampton Inn & Suites	9	1,239	1.2%
Residence Inn	23	3,528	3.5%	Homestead	9	1,162	1.2%

Source: Smith Travel Research

Washington DC Supply Pipeline

Phase	Upper-Priced			Lower-Priced			Unclassified / Independent		
	Properties	Rooms	% Market	Properties	Rooms	% Market	Properties	Rooms	% Market
Pre-Planning	12	2,921	2.9%	3	301	0.3%	5	1,362	1.4%
Planning	16	2,146	2.2%	11	1,107	1.1%	6	1,675	1.7%
Final Planning	6	816	0.8%	5	479	0.5%	1	234	0.2%
In Construction	24	3,738	3.8%	5	470	0.5%	4	627	0.6%
Total	58	9,621	9.7%	24	2,357	2.4%	16	3,898	3.9%

For project level data, contact Smith Travel Research: http://www.strglobal.com (615) 824-8664

Source: Dodge / TWR / STR

Washington, DC holds 25% of the entire Metro-DC market with a current total of 24,512 rooms over 91 properties. The "lower-priced" sector of the market comprises only 2.2% of the entire Metro-DC market while the "upper-priced" sector totals 24% of the entire Metro-DC market. It should be noted that only 8.3% of the DC market hotel rooms are listed as "lower-priced," with 91.6% of the DC market hotel rooms listed as "upper-priced."

Washington DC Submarket Summary

Submarket	Upper-Priced			Lower-Priced			Totals		
	Properties	Rooms	% Market	Properties	Rooms	% Market	Properties	Rooms	% Market
District of Columbia*	91	24,512	24.6%	22	2,235	2.2%	113	26,747	26.8%
Bethesda - Silver Spring*	20	3,975	4.0%	19	1,596	1.6%	39	5,571	5.6%
Arlington*	28	8,673	8.7%	13	1,230	1.2%	41	9,903	9.9%
Alexandria*	25	4,891	4.9%	25	2,745	2.8%	50	7,636	7.7%
Fairfax/Tysons Corner*	27	6,194	6.2%	19	1,865	1.9%	46	8,059	8.1%
I-95 Fredericksburg*	21	2,398	2.4%	55	4,350	4.4%	76	6,748	6.8%
Dulles Airport Area*	35	6,907	6.9%	25	2,812	2.8%	60	9,719	9.8%
Frederick/Rockville	*25*	*4,663*	*4.7%*	*30*	*3,009*	*3.0%*	*55*	*7,672*	*7.7%*
Suburban Maryland	*26*	*5,794*	*5.8%*	*49*	*4,075*	*4.1%*	*75*	*9,869*	*9.9%*
Suburban Virginia	*24*	*3,601*	*3.6%*	*64*	*4,116*	*4.1%*	*88*	*7,717*	*7.7%*
Total	322	71,608	71.9%	321	28,033	28.1%	643	99,641	100.0%

*Sub-market data presented on the following pages

Source: Smith Travel Research

Again, the location at 50 Florida Avenue points to this demand but the risk is high with so many options in the immediate vicinity. A limited service, while I believe holds promise for the DC market, is not the proper option for the 50 Florida Avenue location.

- Bus/Cab Parking

The site as a use for excess Greyhound bus or taxi cab parking was investigated. According to neighboring developers, it is estimated that rent for such a use would be 5% of appraised land value annually. It was assumed that $100/SF would be a reasonable figure to value the land. Calculations are as follows: Land = 40,000 SF x $100 = $4MM. Rent at 5% of $4MM = $200,000. Debt service of 7%, interest only for a loan of $4MM is $280,000. The annual debt service of $280,000 exceeds the annual rent of $200,000, thus this use is not an option.

Demand Analysis:

To understand the demand for the two phases of the 50 Florida Avenue project, it is important to re-highlight the reasoning for the product mix of both phases. First, it has been demonstrated that the supply of office and hotel is too large for such uses. The mix of warehouse, retail, artist housing and student housing will comprise the entire mix of uses based on current demand for such uses in the marketplace. This will be highlighted in five sections.

- Warehouse

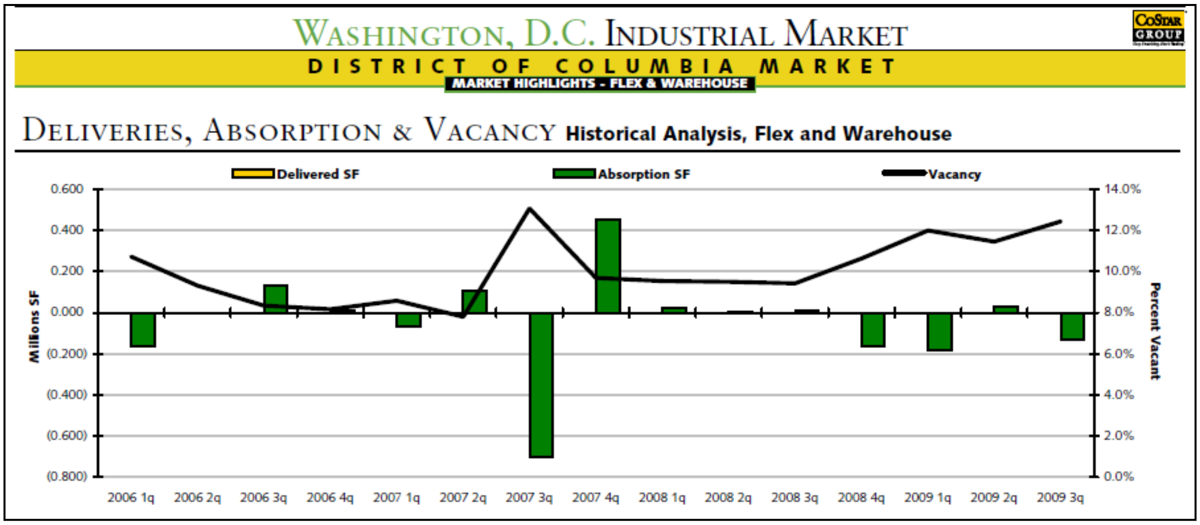
In conducting an analysis for a 2 mile radius of industrial properties from 10,000-20,000 square feet, 9% were vacant at an average rental rate of $10.00 NNN. According to Costar's - Q3 Industrial/Warehouse report, the overall commercial warehouse vacancy rate for Washington is 12.8% with negative absorption in three of the last four quarters. It should be noted that the 2 mile radius vacancy of 9% is better than the retail vacancy of 12% in a 1 mile radius of the subject and 23% vacancy in office product in a .75 mile radius. While vacancies continue to increase city-wide, warehouse demand in a 2 mile radius of the subject may be the best solution to generating income for the property in the short run (2-3 years). Supply of these tenants may be greater than retail or office.

The logic here is that while demand is down overall, the most cost efficient way to lease some of the space would be to find a user in need of immediate space within the District lines. Lincoln Property Group has since leased 20,000 square feet to law firms and a book publisher seeking space to house documents but at minimal rents of $2.00/SF. They have been unsuccessful in finding demand for larger warehouse users to date.

I have found a user interested in 20,000 square feet through O'Neill Realty Advisors willing to pay $9.00/SF for three years. They are to use the space to prepare 15,000 meals a day for a local catering business. They require a minimum of 16,000 square feet, at least three loading bays and open space for 10-15 employees. They wish to commence the lease in January of 2010. This would be an ideal tenant for the first floor of 50 Florida Avenue and discussions are taking place with this potential tenant.

It should be highlighted that the financial analysis of the project has indicated that warehouse use is a favorable immediate use for the subject as it needs minimal capital investment and it yields a 5% average annual yield if it can be 100% leased.

The risk with the warehouse leasing scenario lies with strong competition from warehouse space outside the District lines in Prince George's County and along the Route 295 corridor between Baltimore and Washington. According to Kasey Hughes, a Vice President with Transwestern's Columbia, MD leasing office, NNN rents are between $5.00-$8.50/SF in these markets. These rates are lower than the $9.00/SF NNN that 50 Florida Avenue will need to receive so as to ensure a successful three year hold that covers debt service while delivering a return.



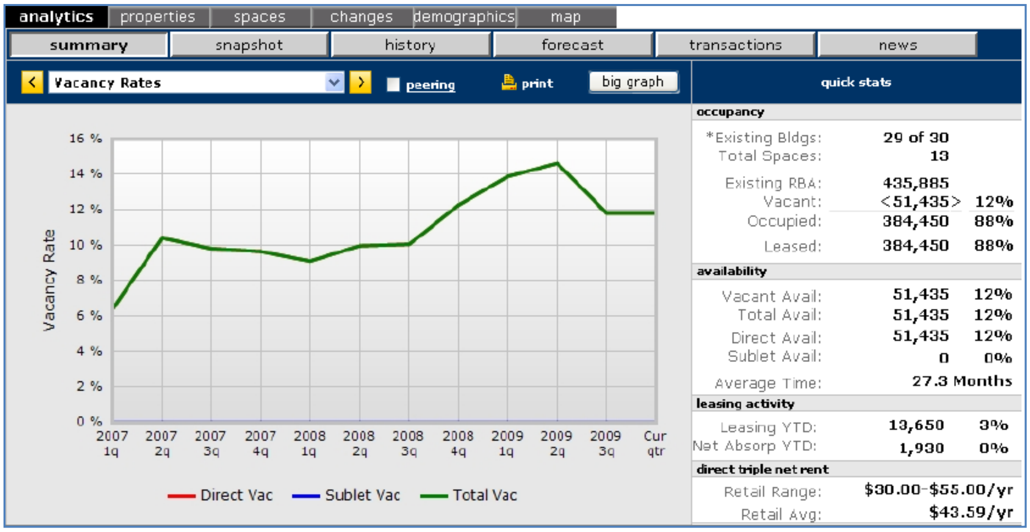
	Existing Inventory		Vacancy		Net	Delivered Inventory		UC Inventory		Quoted
Period	# Bldgs	Total RBA	Vacant SF	Vacancy %	Absorption	# Bldgs	Total RBA	# Bldgs	Total RBA	Rates
2009 3q	486	13,306,145	1,654,222	12.4%	(131,834)	0	0	0	0	$11.80
2009 2q	486	13,306,145	1,522,388	11.4%	28,650	0	0	0	0	$11.69
2009 1q	487	13,355,953	1,600,846	12.0%	(180,431)	0	0	0	0	$11.95
2008 4q	487	13,355,953	1,420,415	10.6%	(161,648)	0	0	0	0	$12.23

- Office

As discussed in the "Product Supply Section," there is minimal demand for office space in this market at this time. Vacancy in a .75 mile radius of the subject is 23%. Office may be considered as a use in three years if there is demand, especially for office condominiums as they yield a strong return but today it is not an option due to oversupply.

- Retail

Retail space in the 1 mile radius of 50 Florida Avenue is also experiencing vacancies of 12% but this seems to be declining. Retail may be a strong solution in three years time when the economic fundamentals return to the nation. Rents are stronger than warehouse rents at an average of $44.00 NNN.



The District's Office of the Deputy Major has verbally supported the need for food and drug retail in the market to support the Eckington, Le Droit and Truxton Circle neighborhoods. I have specifically spoken to the department about CVS and food markets such as Yes! Organic Market and Trader Joes, which fit with their views as to how they would like the market to evolve. Further, Jeff Bartko of CVS/Caremark Real Estate has been contacted and while there is a CVS to open at 1100 First Street, NE, the traffic count at the 50 Florida Avenue was attractive to CVS and it was communicated that in three years, they would consider such a location with the "correct market fundamentals." The location criteria are as follows:

- Highly visible - require pylon sign identity.
- Easy access - with traffic control.
- High traffic locations.
- (Free standing) sites with drive-thru pharmacy capability, 1.5 - 2.0 acres.
- Parking for 75 to 80 vehicles.
- Minimum of 18,000 people in a trade area.

It should be noted that a traffic count of 36,800 cars per day and 1 mile radius population of 41,400 in the trade area meets with CVS's requirements. See below for local traffic count:

Traffic Count Report

50 Florida Ave NE, Washington, DC 20002

Building Type:	Class B Office
Class:	B
RBA:	61,948 SF
Typical Floor:	20,000 SF
Total Available:	60,000 SF
% Leased:	100%
Rent/SF/Yr:	$28.33

	Street	Cross Street	Cross Str Dist	Count Year	Avg Daily Volume	Volume Type	Miles from Subject Prop
1	Florida Ave NE	Porter St NE	0.02 SE	2002	36,800	AAWDT	.07
2	P St NE	Florida Ave NE	0.10 E	2002	8,900	AAWDT	.09
3	Eckington Pl NE	Q St NE	0.07 N	2002	7,600	AAWDT	.11
4	1st St NE	O St NE	0.03 S	2002	9,800	AAWDT	.13
5	Florida Ave NE	New York Ave NE	0.01 SE	2002	46,100	AAWDT	.16
6	R St NE	Eckington Pl NE	0.06 E	2002	6,600	AAWDT	.17
7	New York Ave NE	O St NE	0.16 NE	2002	55,300	AAWDT	.18
8	1st St NE	O St NE	0.04 N	2002	6,100	AAWDT	.19
9	Florida Ave NE	O St NE	0.02 SE	2002	42,000	AAWDT	.20
10	Florida Ave NE	O St NE	0.01 NW	2002	32,600	AAWDT	.24

TRANSWESTERN

10/7/2009
Page 1

Radius	1 Mile	3 Mile	5 Mile
Population			
2013 Projection	42,210	320,704	678,824
2008 Estimate	41,401	315,224	672,145
2000 Census	39,530	303,317	656,507
Growth 2008 - 2013	1.95%	1.74%	0.99%
Growth 2000 - 2008	4.73%	3.93%	2.38%

2008 Households by HH Income	16,233		146,516		299,601	
Income Less Than $15,000	3,817	23.51%	23,974	16.36%	44,939	15.00%
Income: $15,000 - $24,999	1,848	11.38%	12,165	8.30%	24,234	8.09%
Income: $25,000 - $34,999	1,670	10.29%	13,111	8.95%	26,911	8.98%
Income: $35,000 - $49,999	2,178	13.42%	19,850	13.55%	41,472	13.84%
Income: $50,000 - $74,999	2,584	15.92%	25,094	17.13%	51,870	17.31%
Income: $75,000 - $99,999	1,552	9.56%	17,016	11.61%	36,342	12.13%
Income: $100,000 - $149,999	1,488	9.17%	17,580	12.00%	36,886	12.31%
Income: $150,000 - $249,999	831	5.12%	11,415	7.79%	23,447	7.83%
Income: $250,000 - $499,999	220	1.36%	4,329	2.95%	8,912	2.97%
Income: $500,000 or more	45	0.28%	1,982	1.35%	4,588	1.53%
2008 Avg Household Income	$58,310		$79,706		$81,731	
2008 Med Household Income	$40,382		$54,142		$55,902	

- Artist Housing

The subject property is an interesting site in that it is a well traveled artery in a neighborhood that is a mix of residential and commercial uses and rests just two blocks from an office/retail/residential market that will be in much demand when the economic drivers of the country return to normalcy. The demand for warehouse is decent but not strong, retail demand is minimal currently and office and hotel demand is minimal due to over-supply.

Conversations with the city have uncovered a demand for neighborhood retail and a use that will fit with the fabric of the community while abiding by by-right uses. C-M zoned uses as matter of right include a description of artist studio housing: “An apartment integrated with and accessory to an artist studio shall be permitted as a matter of right in a C-M District; provided, occupancy of the apartment shall be limited to the artist using the studio portion of the premises and the family of the artist.”

The next three years will be a challenge for this site as a worthwhile investment. In seeking the best use to generate the highest rents at a minimal cost for three years using the existing structure, artist housing may be a solution. We can charge market rate rents of $9.00-$11.00/SF for 16, 2,090 square foot studios and cover the debt service. According to www.city-data.com, average rents paid in the 20002 zip code for a one bedroom apartment, assuming it being 500 square feet, is $10.80/SF or $450/month. These rents exceed the average, $9.00/SF for warehouse space, which is the only reasonable alternative use for 50 Florida Avenue and leasing to larger warehouse users is difficult due to a limited turning radius for trailers on the existing parking lot.

The demand exists for artist housing according to Ann Corbett, Executive Director of the Cultural Development Corporation, a Washington, DC based organization whose mission it is to, "create opportunities for artists and arts organizations that stimulate economic development.."

From a business and real estate development perspective, they provide advocacy for artists and arts organizations in addition to fostering sustainable economic development. They advocate capital investment in "sound, meaningful arts facility projects and work closely with local government agencies to ensure the inclusion of arts in plans, legislation and regulations." They have built a reputation for "brokering" space. Since 1998, they have brokered 17 arts space projects, totaling 164,000 square feet of arts space development. In short, they are DC's clearinghouse for cultural facilities information and maintain a database (estimated at 800) of arts space seekers that includes individual artists, arts-related businesses and cultural organizations. This demand-side data collected from questionnaires and site visits, combined with continued analysis of the metro area, steers their development. Finally, they serve as consultants to developers, architects, owners and other real estate professionals for developing space for arts uses such as theatres, galleries, museums, dance studios and artist housing. In this sector they work with the District government, Main Street efforts, community development corporations, business improvement districts and federal government agencies in order to match arts organizations with development projects.

A key example of such housing sourced by the Cultural Development Corporation is The Cohen Companies construction of Lorree Grand at Union Place, Phase I (230 K St., NE) in NoMa with a total of 212 units; of which, 30 have been designated artist studios to be completed by Q1, 2010. Phase II will have a total of 500 units, and include 50 such artist units.

The demand for such housing with ample space for work (painting, sculpture) is in high demand in the District according to the CDC. Northern Virginia Community College, the University of Maryland, George Mason University, Howard University and the Corcoran College of Art and Design all offer advanced degrees in art in and near the District. 16 2,090 square foot units located near Metro in the center of Washington at rents of $11/SF should be in strong demand by students and professionals.

Artist housing is a creative use for this project. It is an approved by right use and as such the city would be interested in its development coupled with local supporting retail. The problem will be lease rates. In theory, artist space must be at low cost and at a maximum, priced at $11.00/SF but in order for ownership to cover debt payments, rates must be from $14.00-$15.00/SF. The demand for this cost is minimal.

- Student Housing

With the current lack of demand for office, office condo, 100% retail (The District will support mixed-use but not a 100% retail project) and uncertainly over the ability to lease 100% to a warehouse user, student housing was researched as an alternative.

Currently, Paradigm Development Company is filling the demand for non-profit based internship programs and student housing through the development of a 140,000 square foot project at 1001 3rd Street, NE. The Washington Center for Internships and Academic Seminars will be leased as an apartment building year round to Federal and private entity internship participants. It is estimated that the 95 unit facility will serve about 1,200 students annually.

50 Florida Avenue can serve as a similar use through housing such students plus serve as an overflow residence facility for neighboring schools, Gallaudet, Howard, Catholic, Trinity, George Washington and Georgetown Universities.

The rents to be charged are based on the Washington Center model, detailed below:

Unit Type	No. of Units	Beds / Unit	No. of Beds	Ave. Unit Size	Rent/Student /Revenue Week
Efficiencies	1	1	1	442	0
1BR / 1 BA	3	1	3	578	250
2BR / 1 BA	10	2	20	725	250
2 BR / 2 BA	81	4	324	1,026	290
Total / Avg.	95		348	974	$ 287

Student housing for 50 Florida Avenue would total 100, 1,147 square feet - 2 bed, 2 bath units on five floors. Per the above calculations, minimum rents are as follows: $290 x 2 students= $580/week x 52 weeks = $30,160/1,026 SF = $29/SF. At a 3% increase per year over three years, rents to be charged by ownership would equal: $32. This scenario achieved a 13% IRR.

VI. Development Issues

The process of evaluating a site for construction consists of conducting a Phase I environmental assessment to evaluate any potential contamination of the soil due to past uses where oil, gasoline or other environmentally hazardous material may rest. If there is any contamination found, a Phase II remediation must be taken to rid the soil of contamination or provide direction for its removal.

Soil inspections through the use of borings will help to locate rock and water underground. The location of these elements might add substantially to construction costs. These conditions must be understood as a two level underground parking structure it to be constructed as the foundation for the new six story structure. It should be noted that the site is not in a flood plain, nor on a wetlands reserve.

Boundary and topographical surveys must be conducted prior to establishing the final master plan of the project so as to illustrate the site's relationship to the surrounding properties. This will also give accurate legal descriptions, detailed distances and directions of the boundary lines. The title commitment letter and survey narrative/map should be reviewed so as to verify all easements on the property. All title exceptions should be noted.

Wells Capital Company met with Deborah Kemp, the Neighborhood Planner for Ward 5 of the DC Office of Planning to discuss the city's stance on purchasing the site and using for artist space to be redeveloped with retail on the ground floor plus three levels to maximize the height to 90 feet. All uses and added height were agreed to be in tandem with the fabric of the neighborhood and its desired future as a live/work community.

In order to be approved for such a mixed use development and attain the added height approval, it will be required that the developers apply for a planned unit development (PUD) with the District. Chapter 24 of the "District of Columbia Municipal Regulations" details this process. In summary, a PUD is "designed to encourage high quality developments that provide public benefits… the overall goal is to permit flexibility of development and other incentives, such as increased building height and density: provided, that the project offers a commendable number of quality of public benefits and that it protects and advancers the public health, safety, welfare and convenience."

I spoke with Travis Parker of the Department of Zoning, to detail the PUD's detailed the process. In summary, the PUD process is a two stage process in which the applicant must first submit the proposed development and its impact on the community as a whole to the Office of Planning and the Department of Transportation. The city will review this application and the site's suitability for use as a PUD. They will look at such details such as the appropriateness, character, scale compatibility, mixture of use, sustainable design and compatibility with the streetscape, ward and area plans of the District of Columbia. The second stage will involve a review of the site plan and how it is in compliance with the intent and purpose of the PUD, plus that of the first stage approval. The Zoning Commission will conduct this review.

Mr. Parker emphasized that the project will be especially scrutinized for compatibility to the small area plan and that creative, sustainable design that adds to the streetscape, plus a use that promotes a direct benefit to the community will be reviewed favorably. A "Traffic Impact Study" (cost: $35K-$40K) will also be required to best understand the impact of the new traffic patterns in and out of the mixed-use project. A study will most likely result in the developer spending capital to improve the streetscape, sidewalks and pay for added traffic lights/signaling, cross walks and street striping. This will be required to accommodate the added traffic and the need for safety mechanisms to ensure public safety.

Once the city has reviewed the PUD and received public feedback on the project, a decision will be made to approve, amend or reject the proposal. Preliminary discussions with the mentioned city officials have pointed toward a high probability of approval for a mixed-use retail/student housing or retail/office-

office condo structure that adds to the fabric of the new NoMa/City Gateway corridor and promotes services geared toward existing and future residents.

The retail/student housing PUD will need to apply for a map amendment (re-zoning) to the current zoning so as to allow for residential housing as the "District of Columbia Municipal Regulations" specifies that "no new dwelling shall be permitted in a C-M District." Further, it should be noted that the retail/office and retail/office condominium uses are permitted per section 801.2 of the same Municipal Regulations. As it states, "any commercial use permitted in the C-4 District under 751 ….shall be permitted as a matter of right in a C-M District.

The District appears to welcome the review and subsequent approval of PUD's that are beneficial to the District's communities. A recent approval includes "Square 54," George Washington Universities site at Pennsylvania and 23rd Streets, NW in which a neighborhood grocery store was included to attain higher density approval.

In summary the PUD process is as follows:

1. Deliver to zoning commission
2. Is PUD in conformation with comprehensive plan?
3. Public hearing
4. Zoning commission hearing
5. Final plan approval/disapproval

VII. Development/Construction Costs

Land Purchase:

Conversations with the owner of 50 Florida Avenue, through Lincoln Property Group have indicated an asking price of $8MM. This is $49/FAR-SF using a by-right FAR of 4.0 and gross land area of 40,659 square feet (162,636 SF total). Recent land sales have been minimal and thus only 2007 sales data comparables is available for the immediate market. I have located five comparables. They are as follows:

	Comp 1 (Union Station)	Comp 2 (NoMa)	Comp 3 (NoMa)	Comp 4 (NoMa)	Comp 5 (NoMa)
Address	20 F St., NW, DC	77 K St. NE, DC	1200 1st St., NE, DC	1111 N. Capital St., NE, DC	111 K St., NE, DC
Lost Size - SF	22,550	34,466	63,598	67,811	7,833
FAR	7.3	10.0	9.0	10	10.2
Total SF	165,000	344,000	572,382	678,110	80,125
Sale Date	Jan-07	Jun-07	Jun-07	Jun-07	Sep-07
Price	$32MM	$30MM	$40MM	$30MM	$3.2MM
Value/FAR-SF	$194	$87	$70	$44	$40

According to data compiled by BNP Paribas Investment Bank through the Case-Shiller Index data for November 2009, commercial real estate prices have fallen 39.2% since mid-2007. The closest comparable in terms of location and gross lot size is 1111 North Capital Street, which was sold at the top of the market in 2009 at $44/FAR-SF. The argument is to be made to the sellers of 50 Florida Avenue that their asking price of $49/FAR-SF is too high for today's market and that an offer price of $31/FAR-SF or a total of $5MM is to be made with the following logic: Commercial real estate prices have decreased

39.2% over two years and such a decrease in vale from $44/FAR-SF is $27/FAR-SF. A $31/FAR-SF offer (or 40% price reduction from 2007 highs) is closer to market rate. The owner wishes to retire and since the asset has been on the market for over a year, we think he and his representatives are ready and willing to receive negotiations for alternative offer prices.

Construction Costs:

Current development costs were attained through interviews with J Street Development's senior project manager in charge of development, Colleen Scott. The cost of land and improvements are assumed to be added as one figure for "land cost" and it is assumed that the construction lender will underwrite this figure.

Five scenarios were investigated:

First, Phase I of the project will be used as either 1) a temporary, retail/warehouse use or 2) that of a mixed-use retail/artist studio use. The warehouse scenario will require no additional build out and will be used as is. The artist studio use will require some build out. The costs highlights for this scenario are detailed as follows:

Land is a given cost at $5MM. Site work for Phase I will be minimal as sewer, fire and telecommunications are in place. Additions such as gas (Pepco) and water connections will need to be added if a total of 16 units of artist studios are to be dedicated to floors two and three. These utilities will cost $.33/SF or a total of $40,000. Further, a rehabilitation of the interior of the building will be required for $50,000 or $.83/SF.

Hard costs for the base building will total $20/SF or $1.2MM. Soft costs will include architect fees, survey, permits, insurance, real estate tax, leasing commissions for the warehouse storage bays totaling, 12,566 SF. Builder's risk insurance and debt and construction debt are also included to account for the permanent loan and small construction loan of the rehabilitation of the asset's interior. The project work should be minimal and so as to save money; a contingency reserve will not be used. The total cost to include land purchase of $5MM and construction and financing fees will total $8MM.

Phase II will utilize the maximum density of a 4.0 FAR. As such, an additional 102,000 square feet will be constructed to hold either 3) a mixed-use retail/student PUD housing product, 4) a mixed-use retail/office PUD or 5) a retail/office condominium PUD product plus underground parking for 135 cars on two levels. Again, this may be minimized by 50% with city approval. Development costs associated with the office and office condominium scenarios will be the same.

The student housing scenario costs are as follows: Again, sewer, fire and telecommunications are in place and additional water and gas (Pepco) will need to be added at $20,000 each. A demolition of the existing 60,000 square foot structure at a cost of $100,000 will be required.

Hard costs will total $150/SF or $24.3MM. Soft costs will include will include architect fees, survey/test/fees/permits, insurance, real estate taxes and leasing commissions for the retail portion only totaling 27,000 square feet. Again, this is a student housing scenario and leasing commissions will be minimal as negotiations will take place by senior management with universities. Other main costs are to include soft and hard contingency costs at 5% of their respective totals. Total project costs will be $47MM.

Phase II: The office/office condominium scenario will utilize similar site work expenses but due to the higher quality materials and finishes plus different contractor groups, the hard costs/SF will be $175, a $25 premium over the student housing scenario whose costs are lower now due to a decrease in material costs currently. Note: this could change in three year's time. Total project costs total, $54MM.

Leasing commissions will total $3MM due to higher office rents or sales/SF as well tenant improvements of $50/SF for office and office condominium. These must be high to attract tenants in a future, competitive market.

VIII. Schedule

Through interviews with Colleen Scott, senior project manager for Washington, DC developer, J Street Development's NoMa office projects, 111 K Street 1111 and 100 K Street (in pre-design), it has been determined that a project of 50 Florida Avenue's size should be allotted one year for design and pre-construction with another year for development of the structure. As will be detailed in the "Financial" section, an office scenario will most likely be used in Phase II of the project. Equity of $17MM will be used for land, demolition, architectural/structural design and financing costs associated with the construction loan prior to demolition of the existing structure. The construction loan of $38MM will fund the hard costs and the remaining soft costs for twelve months. The schedule can be found in the "Financials" section of this memorandum.

As detailed in the "Development Program" section, Phase I will be a "hold" phase for the investors. This minimum, three year period will be used to further evaluate the evolution of the local and national economy to determine the proper use of the asset. The investors are at an advantage with time here. It is prudent to be precise with creating accurate cost estimates and schedules that reflect the most current material and labor costs. Three years will provide time to work with the District to create a project design that best fits with the community and city's Master Plan. Further, as noted in the "Development Issues" section, traffic patterns must be considered with the new development and as such, the design team will need to account for this added traffic through working with the city to create safe egress and ingress to the development.

IX. Financial

As described, the investment has been divided into two phases. The concept is to by an asset in a future high growth market as or below market offering prices, hold for three years and then redevelop into a mixed-use PUD with the support of the District so as to maximize investor capital value.

Two scenarios have been researched for Phase I at the purchase cost of $5MM. The seller has offered 80% LTC financing for 7%, interest only for three years. An equity raise for $1MM offered in 10, $100,000 increments will be required.

Zoning allows for artist, live/work studio housing. Demand exists for such a use in the District but with the costs of $3MM associated with its rehabilitation and maximum rents of $11.00/SF, the IRR and NPV were negative. As a result, this option has been abandoned.

Using the existing structure as warehouse is the correct option for our investors as it requires minimal build-out, using only an added $231,500 for settlement and closing costs. If the asset can be 100% leased at $9.00/SF NNN, the return to investors after debt service averages 5%/year for three years. As detailed in the “Investment Alternatives” section, yields are in the 1.0%-3.5% range for all other investment classes expect for the riskier CMBS bond and REIT options. Equity investors in Phase I should enjoy above average returns in a risk free environment with the caveat that the asset will be pre-leased prior to purchase closing.

Phase II will be researched over the course of the three year hold period. Management will closely monitor economic fundamentals to ensure the current and new equity investors that the correct product choice is being made for the redevelopment phase.

The Phase II scenarios are as follows, retail/student housing, retail/office and retail/office condominium:

Retail/student housing will require a construction loan of $36MM at a 70% LTC. Total project costs are $52MM with 15.7MM in required equity. The IRR for this option is 13%. While decent, we have a minimum investor required, 15% hurdle rate. Student housing may be lacking in demand but again, this scenario will be reviewed over the next three years to research future demand potential for this product type.

Retail/office will require a construction loan of $38MM at a 70% LTC. Total project costs are $54MM with $17MM in required equity. The IRR for this option is 4%. This IRR is too low for investor demand and as such, this option will be waved unless market demand supports $32/SF NNN rents for Class B office. These rents will yield a 15% IRR. Currently, it has been estimated that rents of only $26/SF NNN will be supported in 2013.

Finally, the retail/office condominium will require a construction loan of $38MM at a 70% LTC. Total project costs are $54MM with $17MM in required equity. Due to a shorter hold period and anticipated sales over six months with a strong demand, the IRR is 31%. If market fundamentals support, management will peruse this option.

X. Project Management Plan

The principal of Wells Capital Company, Christopher Wells has worked in the commercial mortgage industry for seven years. As such, he has had the opportunity to build relationships with Metropolitan-Washington and Baltimore industry leaders in the commercial finance, development, design, sales and leasing sectors.

The development team will be formed by Mr. Wells, serving as Principal plus another senior founder named as President and CFO to tap into a broader network of equity partners and resources. We will then hire a Senior Legal Counsel to handle contractual obligations and financial closings, a Senior Vice

President of Design & Construction, a Senior Project Manager to assist with the design and construction implementation and finally, a Senior Vice President of Sales and Leasing for the potential office/office condominium scenario.

XI. Conclusion - Sensitivity Analysis

50 Florida Avenue will be purchased and used as a warehouse for Phase I if it can be 100% pre-leased; otherwise, the opportunity will be abandoned. If a “go,” we will pursue the highest and best use for Phase II. We anticipate an office condominium use so as to take advantage of the maximum IRR. If demand does not exist for this or other profit generating uses, we will attempt to sell the asset at the most competitive offer price.

Wells Capital Company believes this is a unique opportunity to purchase as asset at close to the bottom of the sales market but with the prediction of strong, future economic fundamentals. Once these have returned, we anticipate 50 Florida Avenue to be a lucrative investment opportunity.

Please see the following page for the IRR sensitivity analysis:

Sensitivity Analysis

Phase I - Retail/Artist Housing

Note: $10.61 does not cover debt service. No demand for $20.44 rents

Ave Rents/SF	IRR	Ave Rents/SF	IRR
$20.44		$10.61	
Go	16%	No Go	0%
NO DEMAND			

Phase I - Warehouse

Note: $9.26 rents cover debt service.

Ave Rents/SF	IRR	Ave Rents/SF	IRR
$9.26		$8.35	
Go	13%	No Go	0%
√			

Phase II - Retail/Student Housing

Ave Rents/SF	IRR	Ave Rents/SF	IRR
$34.82		$24.47	
Go	13%	No Go	-1%

Phase II - Retail/Office

Ave Rents/SF	IRR	Ave Rents/SF	IRR
$39.86		$29.11	
Go	15%	No Go	4%

Phase II - Retail/Office Condo

Ave Sales/SF + Parking	IRR	Ave Sales/SF + Parking	IRR
$528.00		$132.00	
Go	31%	No Go	16%
√			

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XV. Financials

Phase I - Artist Housing (Renovation of Existing Structure):

ARTIST	**50 Florida Avenue, NE**			
Phase I	**FINANCING EXPENSES**			
	Land			Price/FAR SF
	Contract purchase price		$5,000,000	$30.74
	Total		**$5,000,000**	
	Acquisition Soft Costs			
	Recordation & transfer	1.10%	$55,000	
	Title	0.090%	$4,500	
	Legal		$15,000	
	Acquisition Fee	Wells Capital Co.	$0	
	Other closing costs		$15,000	
	Total fee		**$89,500**	
	Insurance			
	Year total: 2009		**$75,000**	
	Professional Fees			
	Accounting		$50,000	
	Total fee		**$50,000**	
	Financing Fee			Loan Amount
	Recordation on Perm. Loan	$0.00	$0	$5,000,000
	Lender Fee on Perm Loan	$0.00	$0	$5,000,000
	Placement Perm. Loan	$0.00	$0	$5,000,000
	Loan closing/due diligence	0.25%	$12,500	
	Title	0.090%	$4,500	
	Total fee		**$17,000**	
	Total Finacing Expenses		**$231,500**	
				Cost/SF
	Total Purchase + Fin. Exp.		**$5,231,500**	$87.19

ARTIST **50 Florida Avenue, NE**
Phase I

Assumptions

General

% Rent Growth	3.00%
"Going In" Cap Rate	8.00%
Terminal Cap Rate	8.00%
Vacancy	5.00%
Cash Flow Shock	3.00%
Selling Costs	3.00%
Hurdle Rate	15.00%

		PSF	Total Cost
OpEx	Taxes	$3.15	$160,669
	Insurance	$0.34	$17,342
	G&A	$0.05	$2,550
	Utilities	$0.75	$38,255
	Security	$0.05	$2,550
	Grounds/Trash	$0.05	$2,550
	Total	$4.39	$223,916
	Management	4.00%	
	Annual Exp. Growth	3%	

Rollover		New	Renew	Avg.	Underwritten
Renewal Probability (3 yr hold only)	0%				
Tenant Improvements/unit		$250	$200	$225	$225
Leasing Commisions		6.00%	3.00%	4.50%	4.50%
Ave. Rent PSF		$10.61			
Average Lease Term		3.0	yrs		
CapEx	$0.15				

Financing

Total purchase price	$5,000,000	$83.33
Const. cost	$3,028,808	$50.48
Total	$8,028,808	$133.81

3yr UST 11/09	1.25%		
Spread	5.75%		
Note Rate (IO)	7.00%		
Term	3		
Applicable Loan	$4,000,000	$4,028,808	Equity Required
DS Payment (Yr)	$280,000	$23,333	Monthly Payment
Actual LTV	80%		
Actual DSC	0.81		

	Principal	Interest	Principal Reduction
Month 1	$4,000,000	$23,333	$0.0
Month 2	$4,000,000	$23,333	$0.0
Month 3	$4,000,000	$23,333	$0.0
Month 4	$4,000,000	$23,333	$0.0
Month 5	$4,000,000	$23,333	$0.0
Month 6	$4,000,000	$23,333	$0.0
Month 7	$4,000,000	$23,333	$0.0
Month 8	$4,000,000	$23,333	$0.0

ARTIST	50 Florida Avenue, NE

Phase I Project Budget

			Total Cost	Cost per gross Square Foot	FAR/SF
Land					
	Land		$5,000,000	$83.33	$30.74
Site Work					
Public Utilites:	Sewer	*In Place*	$0	$0.00	
	Fire Demand	*In Place*	$0	$0.00	
Perm. Utilities:	Water		$20,000	$0.33	
	Verizon	*In Place*	$0	$0.00	
	Pepco		$20,000	$0.33	
Demolition:	Gut of Existing INTERIOR Structure		$50,000	$0.83	
Hard Costs					
	Base Building		$1,200,000	$20.00	
	Tenant Improvements		$0	$0.00	
	Signage		$10,000	$0.17	
Soft Costs					
	Architect/Engineer Fees		$120,000	$2.00	
	Survey/Test/Fees/Permits		$20,000	$0.33	
	R.E. Taxes		$160,669	$2.68	
	Insurance		$75,000	$1.25	
	BID Tax		$2,254	$0.04	
	Leasing Commissions		$114,537	$1.91	
	Marketing/PR/Community		$15,000	$0.25	
	Financing Expenses		$231,500	$3.86	
	Printing/Misc. Admin		$10,000	$0.17	
	Builder's Risk Insurance		$1,848	$0.03	
	Perm. debt Interest for 3 years		$840,000	$14.00	
	Const. debt Interest for 8 months		$78,000	$1.30	
	Management Fees		$60,000	$1.00	
	Development Fees		$0	$0.00	
Contingencies:	Contingency Soft Costs		$0	$0.00	
	Contingency Hard Costs		$0	$0.00	
	TOTAL PROJECT COST		$8,028,808	$133.81	
	Construction Loan		$3,028,808		
	Land Value		$5,000,000		
	Required Equity (20% purchase + const. loan)		$4,028,808		

Area	Gross Building	60,000
	Buiding Footprint	20,000
	Stories (By right: 60 ft. height)	3
	Gross Land Area:	40,659
	FAR:	4.0
	Gross FAR SF:	162,636
	Parking	45

Parking	Retail	1/300 gross sf in excess of 3,000 sf	7
	Warehouse	1/3000 sf	3
	Multifam	1/unit (16 units/floor x 2 floors)	32
	Total		35
	Exception due to proximity to Metro (.75 of total)		27

Construction Interest Breakdown

			7.000%
Month	Draw / Mo.	Cumulative	0.005833333
1	$378,601	$378,601	$2,209
2	$378,601	$757,202	$4,417
3	$378,601	$1,135,803	$6,626
4	$378,601	$1,514,404	$8,834
5	$378,601	$1,893,005	$11,043
6	$378,601	$2,271,606	$13,251
7	$378,601	$2,650,207	$15,460
8	$378,601	$3,028,808	$17,668
TOTAL	$3,028,808		$79,506

ARTIST 50 Florida Avenue, NE

Phase I Rent Roll

	Tenant	Usable sf = .85 of total	Rate	Annual Rent	Lease Comm.	Lease End	Term (yrs)	Esc.
1	Convenience Store	5,000	$12.00	$60,000	4/1/2009	3/30/2012	3.0	3%
	Storage Bay 1 - Floor 1	6,283	$9.00	$56,547	4/1/2009	3/30/2012	3.0	3%
	Storage Bay 2 - Floor 1	6,283	$9.00	$56,547	4/1/2009	3/30/2012	3.0	3%
2	Artist Studio 1 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 2 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 3 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 4 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 5 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 6 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 7 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 8 - Floor 2	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
3	Artist Studio 9 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 10 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 11 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 12 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 13 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 14 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 15 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Artist Studio 16 - Floor 3	2,090	$11.00	$22,990	4/1/2009	3/30/2012	3.0	3%
	Total	51,006	$ 10.61	$ 540,934			3.0	

	Base Rent Schedule	Escalation	FY2010	FY2011	FY2012	FY2013
1	Convenience Store	3%	$60,000	$61,800	$63,654	$65,564
	Storage Bay 1 - Floor 1	3%	$56,547	$58,243	$59,991	$61,790
	Storage Bay 2 - Floor 1	3%	$56,547	$58,243	$59,991	$61,790
2	Artist Studio 1 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 2 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 3 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 4 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 5 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 6 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 7 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 8 - Floor 2	3%	$22,990	$23,680	$24,390	$25,122
3	Artist Studio 9 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 10 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 11 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 12 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 13 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 14 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 15 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Artist Studio 16 - Floor 3	3%	$22,990	$23,680	$24,390	$25,122
	Total		$540,934	$557,162	$573,877	$591,093
	Combined Growth Rate			2.91%	2.91%	2.91%

ARTIST	50 Florida Avenue						
Phase I						Reversion	
	Year		1	2	3	Year	
			FY2010	FY2011	FY2012	FY2013	
	Base Rents		$540,934	$557,162	$573,877	$591,093	Note: Art studio
	Reimbs	Taxes	$0	$0	$0	$0	tenant pays
		Insurance	$0	$0	$0	$0	utilities, security
		G&A	$0	$0	$0	$0	+ trash.
		Utilities	$38,255	$39,402	$40,584	$41,802	
		Security	$2,550	$2,627	$2,706	$2,787	
		Grounds/Trash	$2,550	$2,627	$2,706	$2,787	
		PGI	$584,289	$601,818	$619,872	$638,468	
						$0	
	Vacancy	5.00%	$29,214	$30,091	$30,994	$31,923	
	CF Shock		$17,529	$18,055	$18,596	$19,154	
						$0	
	EGI		$537,546	$553,672	$570,283	$587,391	
	Expenses						
		Taxes	$160,669	$165,489	$170,454	$175,567	
		Insurance	$75,000	$77,250	$79,568	$81,955	
		G&A	$2,550	$2,627	$2,706	$2,787	
		Utilities	$38,255	$39,402	$40,584	$41,802	
		Security	$2,550	$2,627	$2,706	$2,787	
		Grounds/Trash	$2,550	$2,627	$2,706	$2,787	
		Management	$21,502	$22,147	$22,811	$23,496	
		Total OpEx	$303,076	$312,168	$321,533	$331,179	
		OpEx Ratio	56%	56%	56%	58%	
		NOI	$234,470	$241,504	$248,749	$256,212	
	Reserves	TI	$0	$0	$0		
		LC	$0	$0	$0		
		CapEx	$9,000	$9,000	$9,000		
		Total Reserves	$9,000	$9,000	$9,000		
		CFfDS	$225,470	$232,504	$239,749		
		DS Payment	$280,000	$280,000	$280,000		
		DSC	0.81	0.83	0.86		Note: Not Covering Debt Service
		CFaDS	$ (54,530)	$ (47,496)	$ (40,251)		
		Terminal Value				$ 3,202,644	
		Selling Costs				$ 96,079	
		Loan Repayment				$ 4,000,000	
		Gain on Sale				$ (893,435)	
Initial Equity		$ (4,028,808)	$ (54,530)	$ (47,496)	$ (933,686)		

IRR	$ -
NPV	$ (4,109,612)

Phase I - Warehouse (No Construction):

WAREHOUSE	50 Florida Avenue, NE			
Phase I	FINANCING EXPENSES			
	Land			Price/FAR SF
	Contract purchase price		$5,000,000	$30.74
	Total		$5,000,000	
	Acquisition Soft Costs			
	Recordation & transfer	1.10%	$55,000	
	Title	0.090%	$4,500	
	Legal		$15,000	
	Acquisition Fee	Wells Capital Co.	$0	
	Other closing costs		$15,000	
	Total fee		$89,500	
	Insurance			
	Year total: 2009		$75,000	
	Professional Fees			
	Accounting		$50,000	
	Total fee		$50,000	
	Financing Fee			Loan Amount
	Recordation on Perm. Loan	$0.00	$0	$5,000,000
	Lender Fee on Perm Loan	$0.00	$0	$5,000,000
	Placement Perm. Loan	$0.00	$0	$5,000,000
	Loan closing/due diligence	0.25%	$12,500	
	Title	0.090%	$4,500	
	Total fee		$17,000	
	Total Finacing Expenses		$231,500	
				Cost/SF
	Total Purchase + Fin. Exp.		$5,231,500	$87.19

WAREHOUSE 50 Florida Avenue, NE
Phase I

Assumptions

General			
	% Rent Growth	3.00%	Note: Zero going in cap. rate due to minimal income on exisitng prop. Basically buying land + improvements.
	"Going In" Cap Rate	0.00%	
	Terminal Cap Rate	8.00%	
	Vacancy	5.00%	
	Cash Flow Shock	3.00%	
	Selling Costs	3.00%	
	Hurdle Rate	15.00%	

	Indusrtrial Use ONLY	PSF	Total Cost
OpEx	Taxes	$3.15	$160,669
	Insurance	$0.25	$12,752
	G&A	$0.05	$2,550
	Utilities	$0.20	$10,201
	Security	$0.05	$2,550
	Grounds/Trash	$0.05	$2,550
	Total	$3.75	$191,273
	Management	4.00%	
	Annual Exp. Growth	3%	

Rollover		New	Renew	Avg.	Underwritten
Renewal Probability (3 yr hold only)	0%				
Tenant Improvements PSF		$1.00	$0.50	$0.75	$0.75
Leasing Commisions		6.00%	3.00%	4.50%	4.50%
Ave. Rent PSF		$9.26			
Average Lease Term		3.0	yrs		
CapEx	$1.50				

Financing

Total purchase price	$5,231,500	$87.19
Const. cost	$0	$0.00
Total	$5,231,500	$87.19

3yr UST 11/09	1.25%		
Spread	5.75%		
Note Rate (IO)	7.00%		
Term	3		
Applicable Loan	$4,185,200	$1,046,300	Equity Required
DS Payment (Yr)	$292,964	$24,414	Monthly Payment
Actual LTV	80%		
Actual DSC	1.11		

	Principal	Interest	Principal Reduction
Month 1	$4,185,200	$24,414	$0.0
Month 2	$4,185,200	$24,414	$0.0
Month 3	$4,185,200	$24,414	$0.0
Month 4	$4,185,200	$24,414	$0.0

WAREHOUSE	50 Florida Avenue, NE				
Phase I Project Budget					
			Total Cost	**Cost per gross Square Foot**	**FAR/SF**
Land					
	Land		$5,000,000	$83.33	$30.74
Site Work					
Public Utilites:	Sewer	*In Place*	$0	$0.00	
	Fire Demand	*In Place*	$0	$0.00	
Perm. Utilities:	Water	*In Place*	$0	$0.00	
	Verizon	*In Place*	$0		
	Pepco		$0	$0.00	
Demolition:	Gut of Existing INTERIOR Structure		$0	$0.00	
Hard Costs					
	Base Building		$0	$0.00	
	Tenant Improvements		$0	$0.00	
	Signage		$0	$0.00	
Soft Costs					
	Architect/Engineer Fees		$0	$0.00	
	Survey/Test/Fees/Permits		$0	$0.00	
	R.E. Taxes		$0	$0.00	
	Insurance		$0	$0.00	
	BID Tax		$0	$0.00	
	Leasing Commissions		$0	$0.00	
	Marketing/PR/Community		$0	$0.00	
	Financing Expenses		$0	$0.00	
	Printing/Misc. Admin		$0	$0.00	
	Builder's Risk Insurance		$0	$0.00	
	Debt Interest for 3 years		$0	$0.00	
	Management Fees		$0	$0.00	
	Development Fees		$0	$0.00	
Contingencies:	Contingency Soft Costs		$0	$0.00	
	Contingency Hard Costs		$0	$0.00	
	TOTAL PROJECT COST		**$5,000,000**	**$83.33**	
	Construction Loan		$0		
	Land Value		$5,000,000		
	Required Equity (20% purchase + const. loan)		$1,000,000		
Area	**Gross Building**		**60,000**		
	Buiding Footprint		**20,000**		
	Stories (By right: 60 ft. height)		**3**		
	Gross Land Area:		**40,659**		
	FAR:		**4.0**		
	Gross FAR SF:		**162,636**		
	Parking		**45**		

Parking	Retail	1/300 gross sf in excess of 3,000 sf	7
	Warehouse	1/3000 sf	3
	Multifam	1/unit (16 units/floor x 2 floors)	32
	Total		35
	Exception due to proximity to Metro (.75 of total)		27

WAREHOUSE **50 Florida Avenue, NE**

Phase I

Rent Roll

	Tenant		Rate	Annual Rent	Lease Comm.	Lease End	Term (yrs)	Esc.
1	Convenience Store	5,000	$12.00	$60,000	4/1/2009	3/30/2012	3.0	3%
	Storage Bay 1 - Floor 1	6,283	$9.00	$56,547	4/1/2009	3/30/2012	3.0	3%
	Storage Bay 2 - Floor 1	6,283	$9.00	$56,547	4/1/2009	3/30/2012	3.0	3%
2	Warehouse 2	20,000	$9.00	$180,000	4/1/2009	3/30/2012	3.0	3%
3	Warehouse 3	20,000	$9.00	$180,000	4/1/2009	3/30/2012	3.0	3%
	Total	57,566	$ 9.26	$ 533,094			3.0	

	Base Rent Schedule	Escalation	FY2010	FY2011	FY2012	FY2013
1	Convenience Store	3%	$60,000	$61,800	$63,654	$65,564
	Storage Bay 1 - Floor 1	3%	$56,547	$58,243	$59,991	$61,790
	Storage Bay 2 - Floor 1	3%	$56,547	$58,243	$59,991	$61,790
2	Artist Studio 1 - Floor 2	3%	$180,000	$185,400	$190,962	$196,691
3	Artist Studio 9 - Floor 3	3%	$180,000	$185,400	$190,962	$196,691
	Total		$533,094	$549,087	$565,559	$582,526
	Combined Growth Rate			2.91%	2.91%	2.91%

WAREHOUSE	50 Florida Avenue						
Phase I						Reversion	
	Year		1	2	3	Year	
			FY2010	FY2011	FY2012	FY2013	
Base Rents			$533,094	$549,087	$565,559	$582,526	
Reimbs	Taxes		$160,669	$165,489	$170,454	$175,567	
	Insurance		$12,752	$13,134	$13,528	$13,934	
	G&A		$2,550	$2,627	$2,706	$2,787	
	Utilities		$10,201	$10,507	$10,822	$11,147	
	Security		$2,550	$2,627	$2,706	$2,787	
	Grounds/Trash		$2,550	$2,627	$2,706	$2,787	
	PGI		$724,367	$746,097	$768,480	$791,535	
						$0	
Vacancy		5.00%	$36,218	$37,305	$38,424	$39,577	
CF Shock			$21,731	$22,383	$23,054	$23,746	
						$0	
EGI			$666,417	$686,410	$707,002	$728,212	
Expenses							
	Taxes		$160,669	$165,489	$170,454	$175,567	
	Insurance		$17,342	$17,862	$18,398	$18,950	
	G&A		$2,550	$2,627	$2,706	$2,787	
	Utilities		$38,255	$39,402	$40,584	$41,802	
	Security		$2,550	$2,627	$2,706	$2,787	
	Grounds/Trash		$2,550	$2,627	$2,706	$2,787	
	Management		$26,657	$27,456	$28,280	$29,128	
	Total OpEx		$250,573	$258,090	$265,833	$273,808	
	OpEx Ratio		38%	38%	38%	39%	
	NOI		$415,844	$428,319	$441,169	$454,404	
Reserves	TI		$0	$0	$0		
	LC		$0	$0	$0		
	CapEx		$90,000	$90,000	$90,000		
	Total Reserves		$90,000	$90,000	$90,000		
	CFfDS		$325,844	$338,319	$351,169		
	DS Payment		$292,964	$280,000	$280,000		
	DSC		1.11	1.21	1.25		Note: Covering Debt Service
	CFaDS		$32,880	$58,319	$71,169		
	Terminal Value					$ 5,680,052	
	Selling Costs					$ 170,402	
	Loan Repayment					$ 4,185,200	
	Gain on Sale					$ 1,324,450	
Initial Equity		$ (1,046,300)	$ 32,880	$ 58,319	$ 1,395,619	$ 1,324,450	

IRR	13%
NPV	$ (48,668)

Phase II - Student Housing (New Structure):

STUDENT **50 Florida Avenue, NE**

Phase II **FINANCING EXPENSES**

Construction			
Total Construction Cost		$46,000,000	
Total		**$46,000,000**	
Acquisition Soft Costs			
Recordation & transfer	0.00%	$0	
Title	0.00%	$0	
Legal psf	$1.50	$243,000	
Acquisition Fee	Wells Capital Co.	0.00%	
Other closing costs		$0	
Total fee		**$243,000**	
Insurance			
Year total: 2009	$75K growth @ 3%/yr	**$81,955**	
Professional Fees			
Accounting psf	$1.50	$243,000	
Total fee		**$243,000**	
Taxes during Construction			
12 months		$160,669	
Total fee		**$160,669**	
Financing Fee			Loan Amount
Recordation on Const. Loan	1.10%	$506,000	$46,000,000
Lender Fee on Const. Loan	1.00%	$460,000	$46,000,000
Loan closing/due diligence	0.25%	$115,000	
Title	0.090%	$41,400	
Total fee		**$1,122,400**	
Total Finacing Expenses - Const.		**$1,851,023**	

STUDENT 50 Florida Avenue, NE

Assumptions

General			
	% Rent Growth	3.00%	
	"Going In" Cap Rate	8.00%	
	Terminal Cap Rate	7.50%	
	Vacancy	5.00%	
	Cash Flow Shock	3.00%	
	Selling Costs	3.00%	
	Hurdle Rate	15.00%	

		PSF	Total Cost
OpEx	Taxes	$4.00	$204,024
	Insurance	$0.35	$17,852
	G&A	$0.05	$2,550
	Utilities	$0.10	$5,101
	Security	$0.05	$2,550
	Grounds/Trash	$0.05	$2,550
	Total	$4.60	$234,628
	Management	4.00%	
	Annual Exp. Growth	3%	

Rollover		New	Renew	Avg.	Underwritten
Renewal Probability	100%				
Tenant Improvements/unit		$300	$250	$275	$300
Leasing Commisions		6.00%	3.00%	4.50%	0.50%
Ave. Rent PSF		$30.77			
Average Lease Term		1.2	yrs		
CapEx	$0.25				

Financing

Note 1	$5,231,500	$32.29
Const. cost	$47,375,113	$292.44
Total	$52,606,613	$324.73

1 Month LIBOR est. 2012	3.00%		
Spread	4.50%		
Note Rate	7.50%		
Amort.	25		
Applicable Loan	$36,824,629	$15,781,984	Equity Required
DS Payment (Yr)	$3,265,569	$272,131	Monthly Payment
Actual LTC	70%		
Actual DSC Yr. 1	1.02		

	Principal	Interest	Principal Reduction
Month 1	$36,824,629	$230,154	$41,977
Month 2	$36,782,652	$229,892	$42,239
Month 3	$36,740,413	$229,628	$42,503
Month 4	$36,697,910	$229,362	$42,769
Month 5	$36,655,141	$229,095	$43,036

STUDENT 50 Florida Avenue, NE

Phase II Project Budget - PUD			Student Housing Total Cost	Student Housing Cost per gross Square Foot
Land				
	Land		$5,000,000	$30.86
Site Work				
Public Utilites:	Sewer	*In Place*	$0	$0.00
	Fire Demand	*In Place*	$0	$0.00
Perm. Utilities:	Water		$20,000	$0.12
	Verizon	*In Place*	$0	$0.00
	Pepco		$20,000	$0.12
Demolition:	Demo. of existing structure (60K sf total)		$100,000	$0.62
Hard Costs				
	Base Building (plus underground parking structure - 135 spaces)		$24,300,000	$150.00
	Tenant Improvements		$0	$0.00
	Signage		$10,000	$0.06
Soft Costs				
	Architect/Engineer Fees		$1,620,000	$10.00
	Survey/Test/Fees/Permits		$324,000	$2.00
	R.E. Taxes (3% increase/year/3 years)		$175,698	$1.08
	Insurance		$5,500	$0.03
	BID Tax		$2,500	$0.02
	Leasing Commissions (Retail Only)		$1,152,000	$7.11
	Tenant Improvements		$8,100,000	$50.00
	Marketing/PR/Community		$150,000	$0.93
	Financing Expenses		$1,851,023	$11.43
	Printing/Misc. Admin		$50,000	$0.31
	Builder's Risk Insurance		$37,422	$0.23
	Debt Interest		$1,381,250	$8.53
	Management Fees		$65,000	$0.40
	Development Fees		$1,000,000	$6.17
Contingencies:	Contingency Soft Costs (5% base)		$795,720	$4.91
	Contingency Hard Costs (5% base)		$1,215,000	$7.50
	TOTAL PROJECT COST		**$47,375,113**	**$292.44**
	Construction Loan (70% LTC)		$33,162,579	
	Required Equity		$14,212,534	
	Current Equity in project		$4,028,808	
	Additional Equity Required for Phase II		$10,183,726	
Area	**Gross Building**		**162,000**	
	Building Footprint		**27,000**	
	Stories (90 ft. max height w/ PUD)		**6**	
	Gross Land Area:		**40,659**	
	FAR:		**4.0**	
	Gross FAR SF:		**162,636**	
	Parking		**135**	
Parking	Office	1/8000 sf of gross floor area over 2,000 sf	17	
	Retail	1/300 gross sf in excess of 3,000 sf	80	
	Multifam	1/unit (20 units/floor. 5 floors =)	100	
	Max Total		180	
	Exception due to proximity to Metro (.75 of total)		135	
	setback rear	rear: 2.5"/1' of height, min of 12'		
	side yard	residentail: 3"/1' of height, min 8'		

Construction Interest Breakdown

Month	Draw / Mo.	Cumulative	7.500% 0.00625
1	$2,833,333	$2,833,333	$17,708
2	$2,833,333	$5,666,667	$35,417
3	$2,833,333	$8,500,000	$53,125
4	$2,833,333	$11,333,333	$70,833
5	$2,833,333	$14,166,667	$88,542
6	$2,833,333	$17,000,000	$106,250
7	$2,833,333	$19,833,333	$123,958
8	$2,833,333	$22,666,667	$141,667
9	$2,833,333	$25,500,000	$159,375
10	$2,833,333	$28,333,333	$177,083
11	$2,833,333	$31,166,667	$194,792
12	$2,833,333	$34,000,000	$212,500
TOTAL	$34,000,000		$1,381,250

STUDENT 50 Florida Avenue, NE

Phase I

Rent Roll

	Tenant	Usable sf = .85 of total	Rate	Annual Rent	Lease Comm.	Lease End	Term (yrs)	Esc.
1	Retail Pharmacy/Grocer	24,000	$40.00	$960,000	1/1/2014	3/30/2012	3.0	3%
	Total	24,000						
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
	2-3 Bedroom - Floor 2	1,147	$32.00	$36,704	1/1/2014	12/31/2014	1.0	3%
2	Total Rooms: 1-20 - Floor 2	21,793	$32.00	$734,080	1/1/2014	12/31/2014		
3	Total Rooms: 21-40 - Floor 3	21,793	$32.00	$734,080	1/1/2014	12/31/2014	1.0	3%
4	Total Rooms: 41-60 - Floor 4	21,793	$32.00	$734,080	1/1/2014	12/31/2014	1.0	3%
5	Total Rooms: 61-80 - Floor 5	21,793	$32.00	$734,080	1/1/2014	12/31/2014	1.0	3%
6	Total Rooms: 81-100 - Floor 6	21,793	$32.00	$734,080	1/1/2014	12/31/2014	1.0	3%
	Total rentable sf	132,965	$ 34.82	$ 4,630,400			1.2	3%

	Base Rent Schedule	Escalation	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
1	Retail Pharmacy/Grocer	3%	$960,000	$988,800	$1,018,464	$1,049,018	$1,080,488	$1,112,903	$1,146,290	$1,180,679	$1,216,099	$1,252,582	$1,290,160
2	Total Rooms: 1-20 - Floor 2	3%	$734,080	$756,102	$778,785	$802,149	$826,214	$851,000	$876,530	$902,826	$929,911	$957,808	$986,542
3	Total Rooms: 21-40 - Floor 3	3%	$734,080	$756,102	$778,785	$802,149	$826,214	$851,000	$876,530	$902,826	$929,911	$957,808	$986,542
4	Total Rooms: 41-60 - Floor 4	3%	$734,080	$756,102	$778,785	$802,149	$826,214	$851,000	$876,530	$902,826	$929,911	$957,808	$986,542
5	Total Rooms: 61-80 - Floor 5	3%	$734,080	$756,102	$778,785	$802,149	$826,214	$851,000	$876,530	$902,826	$929,911	$957,808	$986,542
6	Total Rooms: 81-100 - Floor 6	3%	$734,080	$756,102	$778,785	$802,149	$826,214	$851,000	$876,530	$902,826	$929,911	$957,808	$986,542
	Total		$4,630,400	$4,769,312	$4,912,391	$5,059,763	$5,211,556	$5,367,903	$5,528,940	$5,694,808	$5,865,652	$6,041,622	$6,222,870
	Combined Growth Rate			2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%

STUDENT **50 Florida Avenue**

Phase I

Year			1	2	3	4	5	6	7	8	9	10	Reversion Year
			FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Base Rents			$4,630,400	$4,769,312	$4,912,391	$5,059,763	$5,211,556	$5,367,903	$5,528,940	$5,694,808	$5,865,652	$6,041,622	$6,222,870
Reimbs	Taxes		$204,024	$210,145	$216,449	$222,943	$229,631	$236,520	$243,615	$250,924	$258,451	$266,205	$274,191
	Insurance		$17,852	$18,388	$18,939	$19,507	$20,093	$20,695	$21,316	$21,956	$22,615	$23,293	$23,992
	G&A		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	Utilities		$5,101	$5,254	$5,411	$5,574	$5,741	$5,913	$6,090	$6,273	$6,461	$6,655	$6,855
	Security		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	Grounds/Trash		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	PGI		$4,865,028	$5,010,978	$5,161,308	$5,316,147	$5,475,631	$5,639,900	$5,809,097	$5,983,370	$6,162,871	$6,347,758	$6,538,190
Vacancy		10.00%	$486,503	$501,098	$516,131	$531,615	$547,563	$563,990	$580,910	$598,337	$616,287	$634,776	$653,819
CF Shock		0.00%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
EGI			$4,378,525	$4,509,881	$4,645,177	$4,784,532	$4,928,068	$5,075,910	$5,228,188	$5,385,033	$5,546,584	$5,712,982	$5,884,371
													$0
Expenses													$0
	Taxes		$204,024	$210,145	$216,449	$222,943	$229,631	$236,520	$243,615	$250,924	$258,451	$266,205	$274,191
	Insurance		$17,852	$18,388	$18,939	$19,507	$20,093	$20,695	$21,316	$21,956	$22,615	$23,293	$23,992
	G&A		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	Utilities		$5,101	$5,254	$5,411	$5,574	$5,741	$5,913	$6,090	$6,273	$6,461	$6,655	$6,855
	Security		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	Grounds/Trash		$2,550	$2,627	$2,706	$2,787	$2,870	$2,956	$3,045	$3,137	$3,231	$3,328	$3,427
	Management		$234,628	$180,395	$185,807	$191,381	$197,123	$203,036	$209,128	$215,401	$221,863	$228,519	$235,375
	Total OpEx		$469,255	$422,062	$434,724	$447,765	$461,198	$475,034	$489,285	$503,964	$519,083	$534,655	$550,695
	OpEx Ratio		10.72%	9.36%	9.36%	9.36%	9.36%	9.36%	9.36%	9.36%	9.36%	9.36%	9.36%
													$0
	NOI		$3,909,270	$4,087,819	$4,210,454	$4,336,767	$4,466,870	$4,600,876	$4,738,903	$4,881,070	$5,027,502	$5,178,327	$5,333,677
Reserves	TI		$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	
	LC		$34,341	$34,341	$34,341	$34,341	$34,341	$34,341	$34,341	$34,341	$34,341	$34,341	
	CapEx		$40,500	$40,500	$40,500	$40,500	$40,500	$40,500	$40,500	$40,500	$40,500	$40,500	
	Total Reserves		$104,841	$104,841	$104,841	$104,841	$104,841	$104,841	$104,841	$104,841	$104,841	$104,841	
	CFfDS		$3,804,429	$3,982,978	$4,105,613	$4,231,926	$4,362,029	$4,496,035	$4,634,062	$4,776,229	$4,922,661	$5,073,486	
	DS Payment		$3,265,569	$3,649,710	$3,649,710	$3,649,710	$3,649,710	$3,649,710	$3,649,710	$3,649,710	$3,649,710	$3,649,710	
	DSC		1.17	1.09	1.12	1.16	1.20	1.23	1.27	1.31	1.35	1.39	
	CFaDS		$ 538,860	$ 333,268	$ 455,902	$ 582,216	$ 712,319	$ 846,325	$ 984,351	$ 1,126,518	$ 1,272,950	$ 1,423,776	
	Terminal Value												$ 71,115,687
	Selling Costs												$ 2,133,471
	Loan Repayment												$ 29,355,678
	Gain on Sale												$ 39,626,539
Initial Equity		$ (15,781,984)	$ 538,860	$ 333,268	$ 455,902	$ 582,216	$ 712,319	$ 846,325	$ 984,351	$ 1,126,518	$ 1,272,950	$ 41,050,314	

IRR	13%
NPV	$ (2,140,479)

Phase II - Office (New Structure):

OFFICE	**50 Florida Avenue, NE**			
Phase II	FINANCING EXPENSES			
	Construction			
	Total Construction Cost		$54,000,000	
	Total		**$54,000,000**	
	Acquisition Soft Costs			
	Recordation & transfer	0.00%	$0	
	Title	0.00%	$0	
	Legal psf	$1.50	$243,000	
	Acquisition Fee	Wells Capital Co.	0.00%	
	Other closing costs		$0	
	Total fee		**$243,000**	
	Insurance			
	Year total: 2009	$75K growth @ 3%/yr	**$81,955**	
	Professional Fees			
	Accounting psf	$1.50	$243,000	
	Total fee		**$243,000**	
	Taxes during Construction			
	12 months		$160,669	
	Total fee		**$160,669**	
	Financing Fee			Loan Amount
	Recordation on Const. Loan	1.10%	$594,000	$54,000,000
	Lender Fee on Const. Loan	1.00%	$540,000	$54,000,000
	Loan closing/due diligence	0.25%	$135,000	
	Title	0.090%	$48,600	
	Total fee		**$1,317,600**	
	Total Finacing Expenses - Const.		**$2,046,223**	

OFFICE 50 Florida Avenue, NE

Assumptions

General		
	% Rent Growth	3.00%
	"Going In" Cap Rate	8.00%
	Terminal Cap Rate	7.50%
	Vacancy	10.00%
	Cash Flow Shock	0.00%
	Selling Costs	3.00%
	Hurdle Rate	15.00%

		PSF	Total Cost
OpEx	Taxes	$6.00	$306,036
	Insurance	$0.55	$28,053
	G&A	$0.10	$5,101
	Utilities	$1.75	$89,261
	Security	$0.25	$12,752
	Grounds/Trash	$0.20	$10,201
	Total	$8.85	$451,403
	Management	4.00%	
	Annual Exp. Growth	3%	

Rollover		New	Renew	Avg.	Underwritten for Reserves
Renewal Probability	5%				
Tenant Improvements PSF		$15.00	$10.00	$12.50	$12.50
Leasing Commisions		6.00%	3.00%	4.50%	4.50%
Ave. Rent PSF		$29.11			
Average Lease Term		10.7	yrs		
CapEx	$0.15				

Financing

Note 1	$5,231,500	$32.29
Const. cost	$53,563,426	$330.64
Total	$58,794,926	$362.93

1 Month LIBOR est. 2012	3.00%		
Spread	4.50%		
Note Rate	7.50%		
Amort.	25		
Applicable Loan	$41,156,448	$17,638,478	Equity Required
DS Payment (Yr)	$3,649,710	$304,143	Monthly Payment
Actual LTC	70%		
Actual DSC Yr. 1	0.88		

	Principal	Interest	Principal Reduction
Month 1	$41,156,448	$257,228	$46,915
Month 2	$41,109,533	$256,935	$47,208
Month 3	$41,062,325	$256,640	$47,503
Month 4	$41,014,822	$256,343	$47,800
Month 5	$40,967,023	$256,044	$48,099

OFFICE 50 Florida Avenue, NE

Phase II Project Budget - PUD				Office/Office Condo
			Office/Office Condo	Cost per gross Square Foot
Land				
	Land		$5,000,000	$30.86
Site Work				
Public Utilites:	Sewer	*In Place*	$0	$0.00
	Fire Demand	*In Place*	$0	$0.00
Perm. Utilities:	Water		$20,000	$0.12
	Verizon	*In Place*	$0	$0.00
	Pepco		$20,000	$0.12
Demolition:	Demo of existing structure (60K sf total)		$100,000	$0.62
Hard Costs				
	Base Building (plus underground parking structure - 135 spaces)		$28,350,000	$175.00
	Tenant Improvements		$8,100,000	$50.00
	Signage		$10,000	$0.06
Soft Costs				
	Architect/Engineer Fees		$1,620,000	$10.00
	Survey/Test/Fees/Permits		$324,000	$2.00
	R.E. Taxes (3% increase/year/3 years)		$175,698	$1.08
	Insurance		$5,000	$0.03
	BID Tax		$2,500	$0.02
	Leasing Commissions		$3,017,908	$18.63
	Marketing/PR/Community		$150,000	$0.93
	Financing Expenses		$2,046,223	$12.63
	Printing/Misc. Admin		$50,000	$0.31
	Builder's Risk Insurance		$43,659	$0.27
	Debt Interest		$1,543,750	$9.53
	Management Fees		$65,000	$0.40
	Development Fees		$1,000,000	$6.17
Contingencies:	Contingency Soft Costs (5% base)		$502,187	$3.10
	Contingency Hard Costs (5% base)		$1,417,500	$8.75
	TOTAL PROJECT COST		$53,563,426	$330.64
	Construction Loan (70% LTC)		$37,494,398	
	Required Equity		$16,069,028	
	Current Equity in project		$5,231,500	
	Additional Equity Required for Phase II		$10,837,528	

Area	Gross Building	162,000
	Building Footprint	27,000
	Stories (90 ft. max height w/PUD)	6
	Gross Land Area:	40,659
	FAR:	4.0
	Gross FAR SF:	162,636
	Parking	135

Parking	Office	1/8000 sf of gross floor area over 2,000 sf	17
	Retail	1/300 gross sf in excess of 3,000 sf	80
	Multifam	1/unit (20 units/floor. 5 floors =)	100
	Max Total		180
	Exception due to proximity to Metro (.75 of total)		135
	setback rear	rear: 2.5"/1' of height, min of 12'	
	side yard	residentail: 3"/1' of height, min 8'	

Construction Interest Breakdown

			7.500%
Month	Draw / Mo.	Cumulative	0.00625
1	$3,166,667	$3,166,667	$19,792
2	$3,166,667	$6,333,333	$39,583
3	$3,166,667	$9,500,000	$59,375
4	$3,166,667	$12,666,667	$79,167
5	$3,166,667	$15,833,333	$98,958
6	$3,166,667	$19,000,000	$118,750
7	$3,166,667	$22,166,667	$138,542
8	$3,166,667	$25,333,333	$158,333
9	$3,166,667	$28,500,000	$178,125
10	$3,166,667	$31,666,667	$197,917
11	$3,166,667	$34,833,333	$217,708
12	$3,166,667	$38,000,000	$237,500
TOTAL	$38,000,000		$1,543,750

OFFICE **50 Florida Avenue, NE**

Phase II

Rent Roll

Floor		Usable sf = .85 of total	Rate	Annual Rent	Lease Comm.	Lease End	Term (yrs)	Esc.
1	Retail - Pharmacy/Grocer NNN (10 yr. min.)	24,000	$44.00	$1,056,000	1/1/2014	3/30/2012	20.0	3.0%
2	Office - Class B NNN	23,000	$26.00	$598,000	1/1/2014	12/31/2019	5.0	3.0%
3	Office - Class B NNN	23,000	$26.00	$598,000	1/1/2014	12/31/2019	7.0	3.0%
4	Office - Class B NNN	23,000	$26.00	$598,000	1/1/2014	12/31/2019	7.0	3.0%
5	Office - Class B NNN	23,000	$26.00	$598,000	1/1/2014	12/31/2019	7.0	3.0%
6	Office - Class B NNN	23,000	$26.00	$598,000	1/1/2014	12/31/2019	7.0	3.0%
	Total	139,000	$29.11	$4,046,000			10.7	

	Base Rent Schedule	Escalation	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
1	Retail - Pharmacy/Grocer NNN (10 yr. min.)	3.0%	$1,056,000	$1,087,680	$1,120,310	$1,153,920	$1,188,537	$1,224,193	$1,260,919	$1,298,747	$1,337,709	$1,377,840	$1,419,176
2	Office - Class B NNN	3.0%	$598,000	$615,940	$634,418	$653,451	$673,054	$693,246	$714,043	$735,465	$757,529	$780,254	$803,662
3	Office - Class B NNN	3.0%	$598,000	$615,940	$634,418	$653,451	$673,054	$693,246	$714,043	$735,465	$757,529	$780,254	$803,662
4	Office - Class B NNN	3.0%	$598,000	$615,940	$634,418	$653,451	$673,054	$693,246	$714,043	$735,465	$757,529	$780,254	$803,662
5	Office - Class B NNN	3.0%	$598,000	$615,940	$634,418	$653,451	$673,054	$693,246	$714,043	$735,465	$757,529	$780,254	$803,662
6	Office - Class B NNN	3.0%	$598,000	$615,940	$634,418	$653,451	$673,054	$693,246	$714,043	$735,465	$757,529	$780,254	$803,662
	Total		$4,046,000	$4,167,380	$4,292,401	$4,421,173	$4,553,809	$4,690,423	$4,831,136	$4,976,070	$5,125,352	$5,279,112	$5,437,486
	Combined Growth Rate			2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%	2.91%
Ave Rent	Ave. rent/SF for rolling space						$29.26		$34.76				

Floor	Rollover Schedule	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
1	Retail - Pharmacy/Grocer NNN (10 yr. min.)	24,000										
2	Office - Class B NNN	23,000					23,000					
3	Office - Class B NNN	23,000							23,000			
4	Office - Class B NNN	23,000							23,000			
5	Office - Class B NNN	23,000							23,000			
6	Office - Class B NNN	23,000							23,000			
	Total SF	162,000	-	-	-	-	23,000	-	92,000	-	-	-
	Tenant Improvements	$ 2,430,000	$ -	$ -	$ -	$ -	$ 345,000	$ -	$ 920,000	$ -	$ -	$ -
	Leasing Commissions	$ 3,017,908	$ -	$ -	$ -	$ -	$ 40,383	$ -	$ 856,937	$ -	$ -	$ -
	Total Potential Costs	$ 5,447,908	$ -	$ -	$ -	$ -	$ 385,383	$ -	$ 1,776,937	$ -	$ -	$ -
	Renewal Probability											
	Escrow Rolling	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860	$ 219,860
	Rolling Escrow Accum.	$ 219,860	$ 439,719	$ 659,579	$ 879,439	$ 1,099,298	$ 1,319,158	$ 1,539,017	$ 1,758,877	$ 1,978,737	$ 2,198,596	$ 2,418,456

OFFICE **50 Florida Avenue**

Phase I

Year			1	2	3	4	5	6	7	8	9	10	Reversion Year
			FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Base Rents			$4,046,000	$4,167,380	$4,292,401	$4,421,173	$4,553,809	$4,690,423	$4,831,136	$4,976,070	$5,125,352	$5,279,112	$5,437,486
Reimbs	Taxes		$306,036	$315,217	$324,674	$334,414	$344,446	$354,780	$365,423	$376,386	$387,677	$399,308	$411,287
	Insurance		$28,053	$28,895	$29,762	$30,655	$31,574	$32,521	$33,497	$34,502	$35,537	$36,603	$37,701
	G&A		$5,101	$5,254	$5,411	$5,574	$5,741	$5,913	$6,090	$6,273	$6,461	$6,655	$6,855
	Utilities		$89,261	$91,938	$94,696	$97,537	$100,463	$103,477	$106,582	$109,779	$113,073	$116,465	$119,959
	Security		$12,752	$13,134	$13,528	$13,934	$14,352	$14,782	$15,226	$15,683	$16,153	$16,638	$17,137
	Grounds/Trash		$10,201	$10,507	$10,822	$11,147	$11,482	$11,826	$12,181	$12,546	$12,923	$13,310	$13,710
	PGI		$4,497,403	$4,632,325	$4,771,295	$4,914,434	$5,061,867	$5,213,723	$5,370,134	$5,531,239	$5,697,176	$5,868,091	$6,044,134
Vacancy		10.00%	$449,740	$463,233	$477,129	$491,443	$506,187	$521,372	$537,013	$553,124	$569,718	$586,809	$604,413
CF Shock		0.00%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
EGI			$4,047,663	$4,169,093	$4,294,165	$4,422,990	$4,555,680	$4,692,351	$4,833,121	$4,978,115	$5,127,458	$5,281,282	$5,439,720
													$0
Expenses													$0
	Taxes		$306,036	$315,217	$324,674	$334,414	$344,446	$354,780	$365,423	$376,386	$387,677	$399,308	$411,287
	Insurance		$28,053	$28,895	$29,762	$30,655	$31,574	$32,521	$33,497	$34,502	$35,537	$36,603	$37,701
	G&A		$5,101	$5,254	$5,411	$5,574	$5,741	$5,913	$6,090	$6,273	$6,461	$6,655	$6,855
	Utilities		$89,261	$91,938	$94,696	$97,537	$100,463	$103,477	$106,582	$109,779	$113,073	$116,465	$119,959
	Security		$12,752	$13,134	$13,528	$13,934	$14,352	$14,782	$15,226	$15,683	$16,153	$16,638	$17,137
	Grounds/Trash		$10,201	$10,507	$10,822	$11,147	$11,482	$11,826	$12,181	$12,546	$12,923	$13,310	$13,710
	Management		$161,907	$166,764	$171,767	$176,920	$182,227	$187,694	$193,325	$199,125	$205,098	$211,251	$217,589
	Total OpEx		$613,310	$631,709	$650,660	$670,180	$690,285	$710,994	$732,324	$754,293	$776,922	$800,230	$824,237
	OpEx Ratio		15.15%	15.15%	15.15%	15.15%	15.15%	15.15%	15.15%	15.15%	15.15%	15.15%	15.15%
													$0
	NOI		$3,434,353	$3,537,384	$3,643,505	$3,752,810	$3,865,395	$3,981,357	$4,100,797	$4,223,821	$4,350,536	$4,481,052	$4,615,483
Reserves	TI		$101,250	$101,250	$101,250	$101,250	$101,250	$101,250	$101,250	$101,250	$101,250	$101,250	
	LC		$94,310	$94,310	$94,310	$94,310	$94,310	$94,310	$94,310	$94,310	$94,310	$94,310	
	CapEx		$24,300	$24,300	$24,300	$24,300	$24,300	$24,300	$24,300	$24,300	$24,300	$24,300	
	Total Reserves		$219,860	$219,860	$219,860	$219,860	$219,860	$219,860	$219,860	$219,860	$219,860	$219,860	
	CFfDS		$ 3,214,494	$ 3,317,524	$ 3,423,646	$ 3,532,951	$ 3,645,535	$ 3,761,497	$ 3,880,938	$ 4,003,962	$ 4,130,676	$ 4,261,192	
	DS Payment		$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	$ 3,649,710	
	DSC		0.88	0.91	0.94	0.97	1.00	1.03	1.06	1.10	1.13	1.17	
	CFaDS		$ (435,217)	$ (332,186)	$ (226,065)	$ (116,759)	$ (4,175)	$ 111,787	$ 231,227	$ 354,251	$ 480,966	$ 611,482	
	Terminal Value												$ 61,539,780
	Selling Costs												$ 1,846,193
	Loan Repayment												$ 32,808,896
	Gain on Sale												$ 26,884,691
Initial Equity		$ (17,638,478)	$ (435,217)	$ (332,186)	$ (226,065)	$ (116,759)	$ (4,175)	$ 111,787	$ 231,227	$ 354,251	$ 480,966	$ 27,496,173	

IRR	4%
NPV	$ (9,827,102)

Phase II - Office Condo (New Structure):

OFFICE CONDO	**50 Florida Avenue, NE**			
Phase II	FINANCING EXPENSES			
	Construction			
	Total Construction Cost		$54,000,000	
	Total		**$54,000,000**	
	Acquisition Soft Costs			
	Recordation & transfer	0.00%	$0	
	Title	0.00%	$0	
	Legal psf	$1.50	$243,000	
	Acquisition Fee	Wells Capital Co.	0.00%	
	Other closing costs		$0	
	Total fee		**$243,000**	
	Insurance			
	Year total: 2009	$75K growth @ 3%/yr	**$81,955**	
	Professional Fees			
	Accounting psf	$1.50	$243,000	
	Total fee		**$243,000**	
	Taxes during Construction			
	12 months		$160,669	
	Total fee		**$160,669**	
	Sales Commissions			
	6% of Total Sales - Parking	6.00%	$78,975,000	
	Total		**$4,738,500**	
	Financing Fee			Loan Amount
	Recordation on Const. Loan	1.10%	$594,000	$54,000,000
	Lender Fee on Const. Loan	1.00%	$540,000	$54,000,000
	Loan closing/due diligence	0.25%	$135,000	
	Title	0.090%	$48,600	
	Total fee		**$1,317,600**	
	Total Finacing Expenses - Const.		**$6,784,723**	

OFFICE CONDO 50 Florida Avenue, NE

Phase II Project Budget - PUD				Office/Office Condo
			Office/Office Condo	Cost per gross Square Foot
Land				
	Land		$5,000,000	$30.86
Site Work				
Public Utilites:	Sewer	*In Place*	$0	$0.00
	Fire Demand	*In Place*	$0	$0.00
Perm. Utilities:	Water		$20,000	$0.12
	Verizon	*In Place*	$0	$0.00
	Pepco		$20,000	$0.12
Demolition:	Demo of existing structure (60K sf total)		$100,000	$0.62
Hard Costs				
	Base Building (plus underground parking structure - 135 spaces)		$28,350,000	$175.00
	Tenant Improvements		$8,100,000	$50.00
	Signage		$10,000	$0.06
Soft Costs				
	Architect/Engineer Fees		$1,620,000	$10.00
	Survey/Test/Fees/Permits		$324,000	$2.00
	R.E. Taxes (3% increase/year/3 years)		$175,698	$1.08
	Insurance		$5,000	$0.03
	BID Tax		$2,500	$0.02
	Leasing Commissions		$3,017,908	$18.63
	Marketing/PR/Community		$150,000	$0.93
	Financing Expenses		$2,046,223	$12.63
	Printing/Misc. Admin		$50,000	$0.31
	Builder's Risk Insurance		$43,659	$0.27
	Debt Interest		$1,543,750	$9.53
	Management Fees		$65,000	$0.40
	Development Fees		$1,000,000	$6.17
Contingencies:	Contingency Soft Costs (5% base)		$502,187	$3.10
	Contingency Hard Costs (5% base)		$1,417,500	$8.75
	TOTAL PROJECT COST		**$53,563,426**	**$330.64**
	Construction Loan (70% LTC)		$37,494,398	
	Required Equity		$16,069,028	
	Current Equity in project		$5,231,500	
	Additional Equity Required for Phase II		$10,837,528	

Area	**Gross Building**	**162,000**
	Building Footprint	**27,000**
	Stories (90 ft. max height w/ PUD)	**6**
	Gross Land Area:	**40,659**
	FAR:	**4.0**
	Gross FAR SF:	**162,636**
	Parking	**135**

Parking	**Office**	1/8000 sf of gross floor area over 2,000 sf	17
	Retail	1/300 gross sf in excess of 3,000 sf	80
	Multifam	1/unit (20 units/floor. 5 floors=)	100
	Max Total		180
	Exception due to proximity to Metro (.75 of total)		135
	setback rear	rear: 2.5"/1' of height, min of 12'	
	side yard	residentail: 3"/1' of height, min 8'	

Construction Interest Breakdown

			7.500%
Month	Draw / Mo.	Cumulative	0.00625
1	$3,166,667	$3,166,667	$19,792
2	$3,166,667	$6,333,333	$39,583
3	$3,166,667	$9,500,000	$59,375
4	$3,166,667	$12,666,667	$79,167
5	$3,166,667	$15,833,333	$98,958
6	$3,166,667	$19,000,000	$118,750
7	$3,166,667	$22,166,667	$138,542
8	$3,166,667	$25,333,333	$158,333
9	$3,166,667	$28,500,000	$178,125
10	$3,166,667	$31,666,667	$197,917
11	$3,166,667	$34,833,333	$217,708
12	$3,166,667	$38,000,000	$237,500
TOTAL	$38,000,000		$1,543,750

OFFICE CONDO 50 Florida Avenue, NE

Phase II

Rent Roll

Floor		SF	Price/SF	Total Sale	Lease Comm.	Lease End	Term (yrs)	Esc.
1	Retial - Pharmacy/Grocer NNN (10 yr. min.)	27,000	$425.00	$11,475,000	n/a	n/a	n/a	n/a
2	Office Condo 1	27,000	$500.00	$13,500,000	n/a	n/a	n/a	n/a
3	Office Condo 2	27,000	$500.00	$13,500,000	n/a	n/a	n/a	n/a
4	Office Condo 3	27,000	$500.00	$13,500,000	n/a	n/a	n/a	n/a
5	Office Condo 4	27,000	$500.00	$13,500,000	n/a	n/a	n/a	n/a
6	Office Condo 5	27,000	$500.00	$13,500,000	n/a	n/a	n/a	n/a
	Parking	135	$50,000.00	$6,750,000				
	Total	162,135	$528.73	$85,725,000				

	Base Rent Schedule	Escalation	FY2014
1	Retial - Pharmacy/Grocer NNN (10 yr. min.)	n/a	$11,475,000
2	Office Condo 1	n/a	$13,500,000
3	Office Condo 2	n/a	$13,500,000
4	Office Condo 3	n/a	$13,500,000
5	Office Condo 4	n/a	$13,500,000
6	Office Condo 5	n/a	$13,500,000
	Parking	135	$6,750,000
	Total		$85,725,000

OFFICE CONDO **50 Florida Avenue**

Phase II

Year	2013	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15
Total Equity	$ 17,638,478	$ 17,638,478														
Total Debt	$ 41,156,448	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704			
Total	$ 58,794,926															
Sales										$ 11,475,000	$ 13,500,000	$ 13,500,000	$ 13,500,000	$ 13,500,000	$ 13,500,000	$ 6,750,000
Contribution		$ (17,638,478)														
Draw		$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ (41,156,448)		
Total		$ (14,208,774)	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 3,429,704	$ 14,904,704	$ 16,929,704	$ 16,929,704	$ 16,929,704	$ (27,656,448)	$ 13,500,000	$ 6,750,000

IRR	30.77%

Construction Schedule:

50 Florida Avenue, NE, DC

	Total	Acquisition Jan-2010	Design/PRE-CONSTRUCTION - 12 MONTHS Month 1 Jan-2012	Month 2 Feb-2012	Month 3 Mar-2012	Month 4 Apr-2012	Month 5 May-2012	Month 6 Jun-2012	Month 7 Jul-2012	Month 8 Aug-2012	Month 9 Sep-2012	Month 10 Oct-2012	Month 11 Nov-2012
LAND & CARRY COSTS													
Land Costs	5,000,000	5,000,000											
Other	50,000	50,000											
Demolition	100,000												
TOTAL LAND & CLOSING COSTS	5,150,000	5,050,000											
HARD COSTS													
Building Shell and Core	28,350,000	0	0	0	0	0	0	0	0	0	0	0	0
Tenant Improvements	8,100,000	0	0	0	0	0	0	0	0	0	0	0	0
Hard Cost Contingency	1,417,500	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL HARD COSTS	**37,867,500**												
SOFT COSTS													
Architectural, MEP & Structural	1,620,000	0	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Real Estate Taxes	175,698	0	0	0	0	0	0	0	0	0	0	0	0
Other Soft Costs	5,884,318	0	0	0	0	0	0	0	0	0	0	0	0
Site Work	0												
Developer Fee	1,000,000	0	0	0	0	0	0	0	0	0	0	0	0
Soft Cost Contingency	502,187	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL SOFT COSTS	**9,182,203**	**0**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**
FINANCING COSTS													
Lender Fees (Const. Loan)	2,046,223	2,046,223	0	0	0	0	0	0	0	0	0	0	0
TOTAL FINANCING / SETTLEMENT COSTS	54,245,926	7,096,223	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
TOTAL DEVELOPMENT COSTS	**54,245,926**	**12,146,223**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**	**135,000**
EQUITY DRAW	16,069,028	12,146,223	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
EQUITY BAL.		3,922,804	3,787,804	3,652,804	3,517,804	3,382,804	3,247,804	3,112,804	2,977,804	2,842,804	2,707,804	2,572,804	2,437,804
Interest 7.5%													
LOAN BALANCE	38,000,000												
TOTAL Project Costs (Office/Office Condo)	54,069,028												

	CONSTRUCTION - 12 MONTHS											STABALIZATION - Condo Sales			
Month 12 Dec-2012	Month 13 Jan-2013	Month 14 Feb-2013	Month 15 Mar-2013	Month 16 Apr-2013	Month 17 May-2013	Month 18 Jun-2013	Month 19 Jul-2013	Month 20 Aug-2013	Month 21 Sep-2013	Month 22 Oct-2013	Month 23 Nov-2013	Month 24 Dec-2013	Month 25 Jan-2014	Month 26 Feb-2014	Month 27 Mar-2014
0	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	4,781,481	0	0	0
0	675,000	675,000	675,000	675,000	675,000	675,000	675,000	675,000	675,000	675,000	675,000	675,000	0	0	
0	118,125	118,125	118,125	118,125	118,125	118,125	118,125	118,125	118,125	118,125	118,125	118,125	0	0	0
	5,574,606	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**5,574,606**	**0**	**0**	**0**
135,000															
0	0	0	0	0	0	87,849	0	0	0	0	0	87,849	0	0	0
0	490,360	490,360	490,360	490,360	490,360	490,360	490,360	490,360	490,360	490,360	490,360	490,360	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,000,000
0	41,849	41,849	41,849	41,849	41,849	41,849	41,849	41,849	41,849	41,849	41,849	41,849	0	0	0
135,000	**532,209**	**532,209**	**532,209**	**532,209**	**532,209**	**620,058**	**532,209**	**532,209**	**532,209**	**532,209**	**532,209**	**620,058**	**0**	**0**	**1,000,000**
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
135,000	6,106,815	6,106,815	6,106,815	6,106,815	6,106,815	6,194,664	6,106,815	6,106,815	6,106,815	6,106,815	6,106,815	6,194,664	0	0	1,000,000
135,000	**6,106,815**	**6,106,815**	**6,106,815**	**6,106,815**	**6,106,815**	**6,194,664**	**6,106,815**	**6,106,815**	**6,106,815**	**6,106,815**	**6,106,815**	**6,194,664**	**0**	**0**	**1,000,000**
135,000	6,106,815														
2,302,804	(3,804,011)														
PMT:	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	0	0	0
	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	3,166,667	0	0	0

Phase I Funding Sources/Cash Flow Distribution:

Funding - Phase I		
SOURCES OF FUNDS		
Equity		
Investor I - C. Wells	10.00%	$ 104,630
Investor Group (9 Other Investors)	90.00%	$ 941,670
Total Equity		$ 1,046,300
Debt	80%	
Permanent Loan		$ 4,185,200
Total Sources of Funds		$ 5,231,500
USES OF FUNDS		
Acquisition costs		
Property purchase		$ 5,000,000
Settlement/Closing Costs		$ 231,500
Total Uses of Funds		$ 5,231,500

Total Investors	Minimum Investment
10.46	$100,000

Sharing of Cash Flow Distribution

Pari passu

Return of Capital Investment Year 4 (with const. loan)

For the years ending	Year 1	Year 2	Year 3
Net Cash Flow	$ 32,880	$ 58,319	$ 71,169
Cash Distribution	$ 32,880	$ 58,319	$ 71,169
Return/Investor	$ 3,143	$ 5,574	$ 6,802
Total Return/Investor	**3.14%**	**5.57%**	**6.80%**